

**FORESTHILL PUBLIC
UTILITY DISTRICT**

AUDITED FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**



FORESTHILL PUBLIC UTILITY DISTRICT

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FORESTHILL PUBLIC UTILITY DISTRICT

DISTRICT OFFICIALS

DISTRICT BOARD OF DIRECTORS

- *Tamra West* President
- *Helen Rogers West* Vice President
- *Linda Cholcher* Treasurer
- *Neil Cochran* Director
- *Sherry Wicks* Director

OTHER DISTRICT OFFICIALS

- *Henry White* General Manager
- *Roger Carroll* Finance Manager



BOLER & ASSOCIATES

PROFESSIONAL ACCOUNTANCY CORPORATION
750 F STREET • DAVIS, CA 95616

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Foresthill Public Utility District
Foresthill, California

We have audited the accompanying financial statements of the governmental activities and the business-type activities of Foresthill Public Utility District, as of and for the years ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Foresthill Public Utility District, as of June 30, 2014, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the Foresthill Public Utility District for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Unfunded Accrued Liability and Change in Market Value of Assets, Schedule of District Contributions, and Schedule of Investment Returns on pages 3-11 and 43-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Foresthill Public Utility District's basic financial statements. The Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual and Schedule of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual and Schedule of Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual and Schedule of Operating Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2014, on our consideration of the Foresthill Public Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Foresthill Public Utility District's internal control over financial reporting and compliance.



September 26, 2014

FORESTHILL PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL ENDED JUNE 30, 2014

This section of the Foresthill Public Utility District (District) annual financial report presents a narrative overview and analysis of the District's financial activities for the fiscal years ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's Net Position increased 16.22% or \$579,874 to \$3.57 million in fiscal year 2014. The increase in 2014 can be attributed to the increase in non-operating assessments and to reduced operating costs.
- In 2014, the District's total operating revenues increased 6.40% or \$120,585 from the prior year. This was a result of the stabilization of the water and assessment rates and from overage fees caused by a warm summer.
- In 2014, the District's operating expenses before depreciation decreased by 2.22% or \$31,964. The District management continues to keep frugality as a major operating principal. All costs are reviewed for necessity and value.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of the following parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis (this section);
- Basic Financial Statements:
 - Government-Wide Financial Statements;
 - Fund Financial Statements; and
 - Notes to Financial Statements
- Required Supplementary Information
- Supplemental Information
- Other reports

The basic financial statements include two kinds of statements that present different views of the District.

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position (pages 12-13) presents information on all of the District's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in net position may serve as a useful indicator of the District's financial improvement or deterioration.

The Statement of Activities (pages 14-15) presents information showing how the government's net position changed during the past year. All changes in net position are reported as soon as the underlying

FORESTHILL PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL ENDED JUNE 30, 2014

event giving rise to the change occurs, regardless of the timing of related cash flows (accrual basis of accounting). Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenue – “governmental activities” from other functions that are intended to recover all or a significant portion of their costs through users fees and charges – “business-type activities.” The government activities of the Foresthill Public Utility District includes debt service for the improvement bonds. The business-type activity of the District’s is the water system.

FUND FINANCIAL STATEMENTS

A “fund” is a group of related accounts that is used to maintain control over resources that that have been segregated for specific activities or objectives. The Foresthill Public Utility District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Foresthill Public Utility District can be divided into two categories:

- Governmental Funds; and
- Proprietary Funds

Governmental funds are used to account for essentially the same functions reported as “governmental activities” in the government-wide financial statements. However, unlike those statements, the focus in these statements is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District has only one governmental fund: Assessment District No. 2 Debt Service Fund.

Proprietary funds are generally used to account for services for which the District charges customers. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The District maintains one type of proprietary fund, an enterprise fund, as described below.

Enterprise funds are used to report the same functions as presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for water operations.

NOTES TO FINANCIAL STATEMENTS

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-42 of this report.

FORESTHILL PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL ENDED JUNE 30, 2014

REQUIRED SUPPLEMENTARY INFORMATION

These schedules provide additional information as to the funding and activity of the District's participation in the defined benefit pension plan. They can be found beginning on page 43.

SUPPLEMENTAL INFORMATION

These schedules are for additional analyses for the District Enterprise Fund and can be found beginning on page 47.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

ANALYSIS OF NET POSITION

With the consolidation of government-wide net position into one statement and other changes such as the exclusion of fiduciary funds, net position may now serve as a useful indicator of a government's financial position. For the District, assets exceeded liabilities and deferred inflows of resources by \$4.15 million.

The Summary of Net Position is as follows:

TABLE 1
SUMMARY OF NET POSITION
AS OF JUNE 30

	Governmental Activities		Business-type Activities		TOTALS	
	2014	2013	2014	2013	2014	2013
ASSETS:						
Current assets	\$ 54,452	\$ 496,598	\$ 779,165	\$ 608,396	\$ 833,617	\$ 1,104,994
Other noncurrent assets	2,614,434	2,209,091	1,186,796	1,204,741	3,801,230	3,413,832
Capital assets, net	-	-	6,866,769	6,743,338	6,866,769	6,743,338
TOTAL ASSETS	\$ 2,668,886	\$ 2,705,689	\$ 8,832,730	\$ 8,556,475	\$ 11,501,616	\$ 11,262,164
LIABILITIES:						
Liabilities due after one year	\$ 2,642,700	\$ 2,707,000	\$ 2,109,573	\$ 2,214,123	\$ 4,752,273	\$ 4,921,123
Other liabilities	106,668	94,518	315,300	472,903	421,968	567,421
TOTAL LIABILITIES	\$ 2,749,368	\$ 2,801,518	\$ 2,424,873	\$ 2,687,026	\$ 5,174,241	\$ 5,488,544
DEFERRED INFLOWS:						
Special assessments to be collected	\$ 2,174,859	2,209,091	\$ -	\$ -	\$ 2,174,859	\$ 2,209,091
NET POSITION:						
Investment in capital assets	\$ -	\$ -	\$ 4,654,979	\$ 4,546,700	\$ 4,654,979	\$ 4,546,700
Restricted	-	-	1,073,398	1,083,523	1,073,398	1,083,523
Unrestricted	(2,255,341)	(2,304,920)	679,480	239,226	(1,575,861)	(2,065,694)
TOTAL NET POSITION	\$ (2,255,341)	\$ (2,304,920)	\$ 6,407,857	\$ 5,869,449	\$ 4,152,516	\$ 3,564,529

FORESTHILL PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL ENDED JUNE 30, 2014

- Total Net Position increased by \$589,810 from 2013 to 2014.
- \$4.65 million (112.10%) in net capital assets (e.g., land, buildings, other improvements, construction in progress and equipment), less any outstanding related debt used to acquire these assets. The District uses these capital assets to provide services to the community; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- \$1.07 million (25.85%) in net position are earmarked and represent resources that are subject to external restrictions on how they may be used. The increase in this figure from 2013 to 2014 can be found in the Restricted Net position in the Business-type Activities.
- The remaining unrestricted deficit is \$1.57 million.

CHANGES IN NET POSITION

The following table reflects the change in net position for Governmental and Business-Type Activities:

TABLE 2
CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30

	Governmental Activities		Business-type Activities		TOTALS	
	2014	2013	2014	2013	2014	2013
OPERATING REVENUES:						
Sales of water	\$ -	\$ -	\$ 1,241,009	\$ 1,226,166	\$ 1,241,009	\$ 1,226,166
Sugar Pine surcharge	-	-	220,767	223,640	220,767	223,640
Rehabilitation and system surcharges	-	-	376,164	290,414	376,164	290,414
Water service related fees	-	-	16,813	51,557	16,813	51,557
Other income	-	-	149,954	92,345	149,954	92,345
TOTAL	-	-	2,004,707	1,884,122	2,004,707	1,884,122
OPERATING EXPENSES						
Source of supply	-	-	119,900	123,539	119,900	123,539
Pumping	-	-	18,190	17,527	18,190	17,527
Water treatment	-	-	118,390	142,048	118,390	142,048
Transmission and distribution	-	-	205,327	202,859	205,327	202,859
Customer accounts	-	-	16,970	6,242	16,970	6,242
Regulatory compliance	-	-	23,135	-	23,135	-
Administration and general	-	-	631,058	674,301	631,058	674,301
Depreciation and amortization	-	-	276,228	274,646	276,228	274,646
TOTAL	-	-	1,409,198	1,441,162	1,409,198	1,441,162

FORESTHILL PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL ENDED JUNE 30, 2014

	Governmental Activities		Business-type Activities		TOTALS	
	2014	2013	2014	2013	2014	2013
NON-OPERATING REVENUES						
(EXPENSES):						
Interest income	4,544	-	2,559	7,339	7,103	7,339
Assessments received	34,232	37,572	-	-	34,232	37,572
Loss on disposition of asset	-	-	(6,882)	-	(6,882)	-
Grant income	-	-	11,500	-	11,500	-
Property taxes	51,352	47,478	74,452	77,814	125,804	125,292
Will serve	-	-	66,862	66,661	66,862	66,661
Interest expense	(140,549)	(133,573)	(114,126)	(117,671)	(254,675)	(251,244)
TOTAL	(50,421)	(48,523)	34,365	34,143	(16,056)	(14,380)
TRANSFERS						
Transfers in (out)	100,000	100,000	(100,000)	(100,000)	-	-
CHANGE IN NET POSITION	49,579	51,477	529,874	377,103	579,453	428,580
NET POSITION, JULY 1	(2,304,920)	-	5,869,449	5,492,346	3,564,529	5,492,346
Prior period adjustment	-	(2,356,397)	8,534	-	8,534	(2,356,397)
As restated	(2,304,920)	(2,356,397)	5,877,983	5,492,346	3,573,063	3,135,949
NET POSITION, JUNE 30	<u>\$ (2,255,341)</u>	<u>\$ (2,304,920)</u>	<u>\$ 6,407,857</u>	<u>\$ 5,869,449</u>	<u>\$ 4,152,516</u>	<u>\$ 3,564,529</u>

Governmental Activities and Business-type Activities increased the District's net position by \$49,579 and \$529,874, respectively.

REVENUES

The Governmental Activities total revenues and transfers were \$190,128 and Business-Type Activity revenues were \$2.25 million for the year ended June 30, 2014. This represented a total increase of \$81,744 from 2013. This increase in revenues was attributed to one-time grant revenues and ongoing additional surcharge receipts.

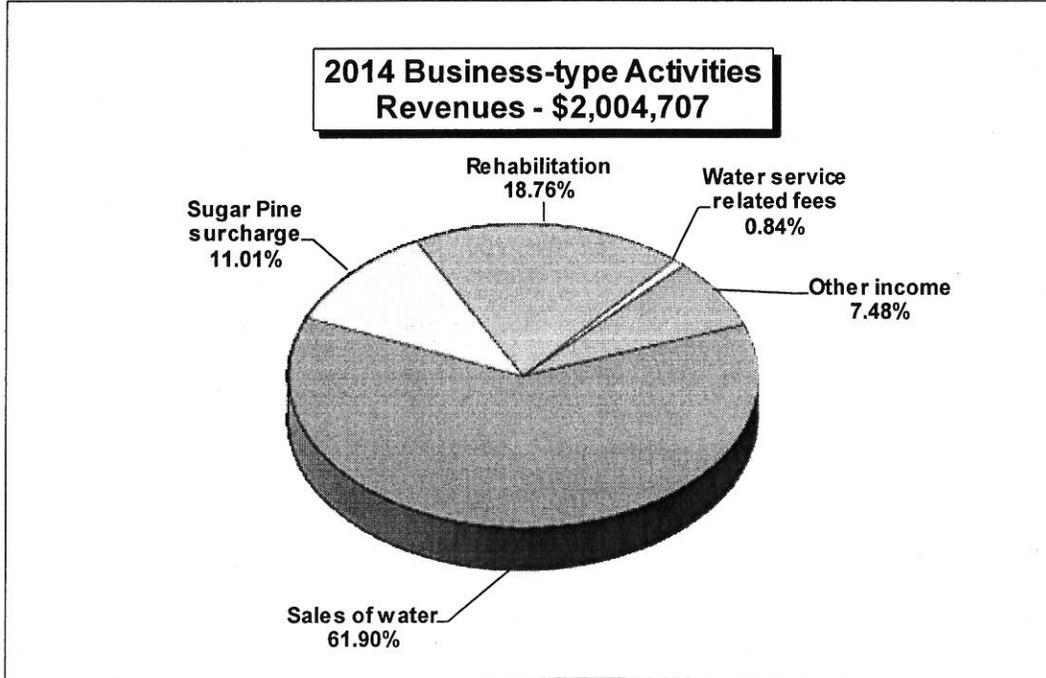
Program revenues include charges for services and grants and contributions. Program revenues provided approximately \$2.00 million for business-type activities.

General revenues include, among other things, taxes, assessments and intergovernmental revenues. General revenues provided \$234,001 (10.40% of total revenues). The majority of general revenues came from property taxes, assessments, and will serve fees.

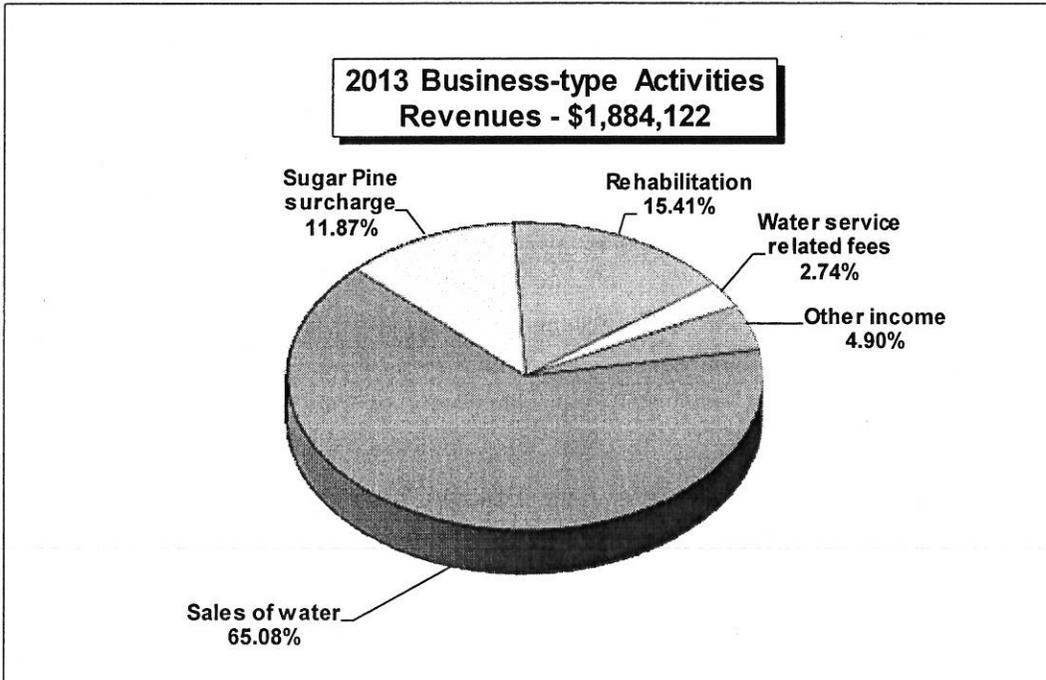
FORESTHILL PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL ENDED JUNE 30, 2014

The fiscal year ended June 30, 2014 business-type activities revenues are reflected graphically as follows:



The fiscal year ended June 30, 2013 business-type activities revenues are reflected graphically as follows:



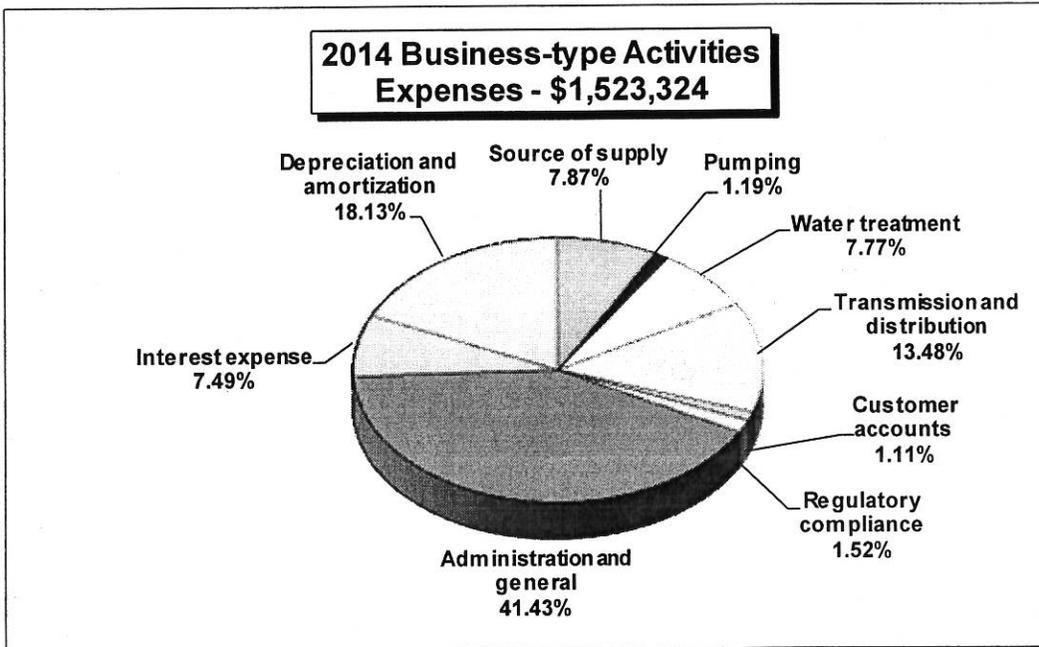
FORESTHILL PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL ENDED JUNE 30, 2014

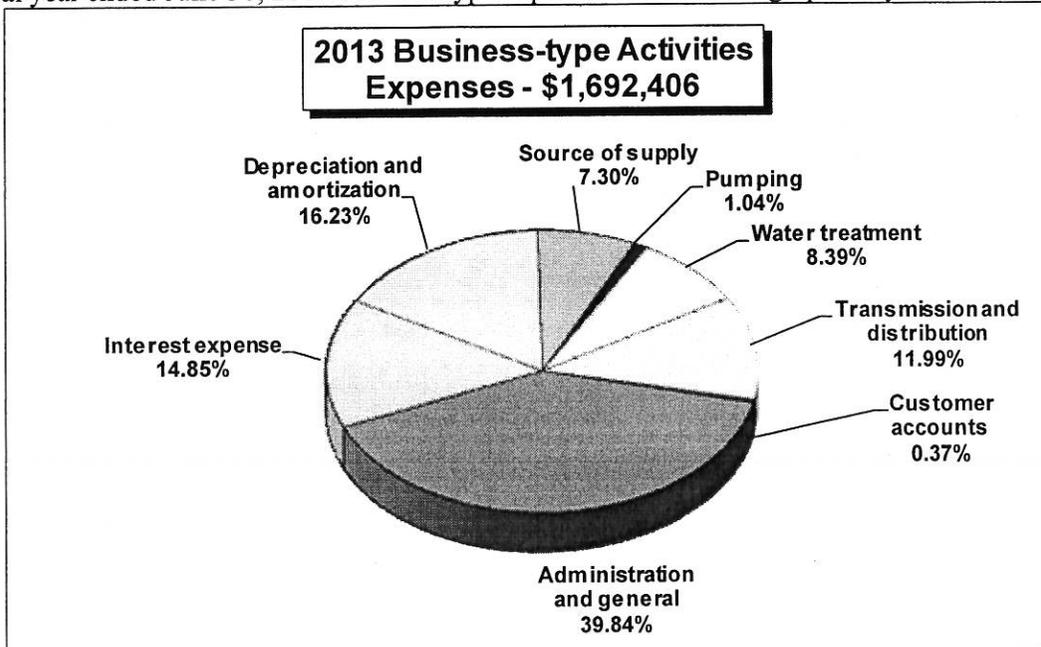
EXPENSES

Expenses for the District totaled \$1.66 million for the fiscal year ended June 30, 2014. Governmental activities incurred \$140,549 in expenses and business-type activities incurred \$1.52 million in expenses during the year. Business-type activities expenses were 142.26% funded by program revenues.

The fiscal year ended June 30, 2014 business-type expenses are reflected graphically as follows:



The fiscal year ended June 30, 2014 business-type expenses are reflected graphically as follows:



FORESTHILL PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The Foresthill Public Utility District uses fund accounting to segregate accounts for specific activities or objectives, including demonstrating finance-related legal compliance.

GOVERNMENTAL FUNDS

The focus of the District's government funds is to provide information on near-term inflows, outflows and balances of resources that are available to provide services and capital project construction. In particular, unreserved fund balance may serve as a useful measure of a government's net spendable resources.

At the end of FY 2013-14, the District's governmental fund reported committed fund balance of \$451,659.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The capital assets are reported as follows:

TABLE 3
CAPITAL ASSETS, NET OF DEPRECIATION
BUSINESS-TYPE ACTIVITIES
AS OF JUNE 30

	<u>2014</u>	<u>2013</u>
Capital assets, not being depreciated:		
Land and land rights	\$ 36,568	\$ 36,568
Depreciable capital assets:		
Source of supply	2,049,227	2,011,710
Pumping plant	9,636	9,980
Water treatment plant	459,437	188,174
Transmission and distribution	4,230,238	4,399,666
General plant	81,663	97,240
TOTAL	<u>\$ 6,866,769</u>	<u>\$ 6,743,338</u>

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2014, was \$6.87 million (net of accumulated depreciation). This investment in capital assets includes: land, buildings, improvements other than buildings, and equipment. The District's investment in capital assets had a net increase for FY 2013-14 of \$123,431.

For government-wide financial statement presentation, all depreciable capital assets are depreciated from the acquisition date over their useful lives.

FORESTHILL PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL ENDED JUNE 30, 2014

DEBT ADMINISTRATION

At the end of FY 2013-14, the District had long-term liabilities of \$2.71 million and \$2.10 million for governmental activities and business-type activities, respectively. Additional information about the District's long-term obligations can be found in Notes 5 and 6 in the Notes to the Basic Financial Statements.

TABLE 3
OUTSTANDING DEBT
AS OF JUNE 30

	<u>2014</u>	<u>2013</u>
GOVERNMENTAL ACTIVITIES:		
<u>ASSESSMENT DISTRICT NO. 2:</u>		
1997 Improvement bonds	1,075,800	1,100,900
1998 Improvement bonds	1,631,200	1,667,400
TOTAL ASSESSMENT DISTRICT	<u>2,707,000</u>	<u>2,768,300</u>
BUSINESS-TYPE ACTIVITIES:		
<u>FORESTHILL PUBLIC UTILITY DISTRICT:</u>		
2003 Certificates of Participation	\$ 2,195,000	\$ 2,295,000
Add: Unamortized premiums	11,812	14,145
Less: Unamortized cost of issuance	(113,398)	(121,218)
Obligations under capital lease	4,978	7,065
TOTAL PUBLIC UTILITY DISTRICT	<u>2,098,392</u>	<u>2,194,992</u>
TOTAL DEBT	<u>\$ 4,805,392</u>	<u>\$ 4,963,292</u>

GOING FORWARD

The District recently enhanced its rate structure through a Proposition 218 public hearing process. With this revenue stability, combined with the administration's continuing frugality, the District sees good prospects for the future. Going forward, is in the planning stage on projects to replace aging pipelines and perform previously deferred maintenance projects.

REQUESTS FOR INFORMATION

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District at 24540 Main Street, Foresthill, CA or call (530) 367-2511.



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BASIC FINANCIAL STATEMENTS



FORESTHILL PUBLIC UTILITY DISTRICT

GOVERNMENT-WIDE STATEMENT OF NET POSITION AS OF JUNE 30, 2014

	Governmental Activities	Business-type Activities	TOTALS
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ -	\$ 517,680	\$ 517,680
Receivables:			
Accounts receivable, net	-	198,419	198,419
Interest receivable	-	511	511
Prepaid expenses	-	48,928	48,928
Internal balances	54,452	(54,452)	-
Inventory - materials and supplies	-	68,079	68,079
	54,452	779,165	833,617
NONCURRENT ASSETS:			
Capital assets, net:			
Nondepreciable	-	36,568	36,568
Depreciable, net	-	6,830,201	6,830,201
	-	6,866,769	6,866,769
OTHER ASSETS:			
Assessments receivable	2,174,859	-	2,174,859
Debt issuance costs, net of amortization	-	113,398	113,398
Restricted cash and cash equivalents	439,575	1,073,398	1,512,973
	2,668,886	8,832,730	11,501,616
TOTAL ASSETS	\$ 2,668,886	\$ 8,832,730	\$ 11,501,616

The accompanying notes to financial statements are an integral part of this statement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>TOTALS</u>
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	\$ -	\$ 22,566	\$ 22,566
Retainage payable	-	28,984	28,984
Customer deposits	-	27,156	27,156
Interest payable	42,368	23,430	65,798
Accrued liabilities	-	1,497	1,497
Compensated absences payable	-	48,795	48,795
Other post-employment benefits payable	-	60,655	60,655
Obligation under capital lease, due within one year	-	2,217	2,217
Long-term debt, due within one year	64,300	100,000	164,300
TOTAL CURRENT LIABILITIES	<u>106,668</u>	<u>315,300</u>	<u>421,968</u>
NONCURRENT LIABILITIES, due after one year			
Obligation under capital lease	-	2,761	2,761
Long-term debt	2,642,700	2,095,000	4,737,700
Add: Bond premium, net of amortization	-	11,812	11,812
TOTAL NONCURRENT LIABILITIES	<u>2,642,700</u>	<u>2,109,573</u>	<u>4,752,273</u>
TOTAL LIABILITIES	<u>\$ 2,749,368</u>	<u>\$ 2,424,873</u>	<u>\$ 5,174,241</u>
DEFERRED INFLOWS OF RESOURCES:			
Special assessments to be collected	<u>\$ 2,174,859</u>	<u>\$ -</u>	<u>\$ 2,174,859</u>
NET POSITION:			
Invested in capital assets, net of related debt	-	\$ 4,654,979	\$ 4,654,979
Restricted for:			
Capital reserve	-	269,904	269,904
Repairs and replacement reserve	-	545,658	545,658
Certificates of participation reserve	-	257,836	257,836
Unrestricted	(2,255,341)	679,480	(1,575,861)
TOTAL NET POSITION	<u>\$ (2,255,341)</u>	<u>\$ 6,407,857</u>	<u>\$ 4,152,516</u>

FORESTHILL PUBLIC UTILITY DISTRICT

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AS OF JUNE 30, 2014

Functions/Programs	Operating Expenses	Charges for Services	Program Revenues	
			Grants and other contributions	
			Operating	Capital
GOVERNMENTAL ACTIVITIES:				
Interest on long-term debt	\$ 140,549	\$ -	\$ -	\$ -
BUSINESS-TYPE ACTIVITIES:				
Water utility services and delivery	1,409,198	2,004,707	-	11,500
Interest on long-term debt	114,126	-	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	<u>1,523,324</u>	<u>2,004,707</u>	<u>-</u>	<u>11,500</u>
TOTAL GOVERNMENT	<u>\$ 1,663,873</u>	<u>\$ 2,004,707</u>	<u>\$ -</u>	<u>\$ 11,500</u>

GENERAL REVENUES:

- Property taxes
- Interest income
- Assessments received
- Loss on disposition of asset
- Will serve fees

TRANSFERS

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

Net position, July 1:

- As originally stated
- Prior period adjustments
- As restated

NET POSITION, JUNE 30

The accompanying notes to financial statements are an integral part of this statement.

**Net (Expense) Revenue and
Changes in Net Position**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>TOTALS</u>
\$ (140,549)		\$ (140,549)
-	607,009	607,009
-	(114,126)	(114,126)
-	492,883	492,883
\$ (140,549)	\$ 492,883	\$ 352,334
51,352	74,452	125,804
4,544	2,559	7,103
34,232	-	34,232
-	(6,882)	(6,882)
-	66,862	66,862
100,000	(100,000)	-
190,128	36,991	227,119
49,579	529,874	579,453
-	5,869,449	5,869,449
(2,304,920)	8,534	(2,296,386)
(2,304,920)	5,877,983	3,573,063
\$ (2,255,341)	\$ 6,407,857	\$ 4,152,516

FORESTHILL PUBLIC UTILITY DISTRICT

BALANCE SHEET - GOVERNMENTAL FUND
ASSESSMENT DISTRICT NO. 2 DEBT SERVICE FUND
AS OF JUNE 30, 2014

ASSETS	
Cash and cash equivalents	\$ 439,575
Due from other funds	<u>54,452</u>
TOTAL ASSETS	<u>\$ 494,027</u>
LIABILITIES	
Interest payable	\$ 42,368
FUND BALANCES	
Committed for debt service	<u>451,659</u>
	<u>\$ 494,027</u>

The accompanying notes to financial statements are an integral part of this statement.

FORESTHILL PUBLIC UTILITY DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET POSITION AS OF JUNE 30, 2014

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 451,659
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Long-term amounts not due and available in the current period and therefore are not reported in the governmental funds balance sheet:	
Assessments receivable	2,174,859
Deferred revenues	(2,174,859)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet:	
Bonds payable	(2,707,000)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (2,255,341)</u>

The accompanying notes to financial statements are an integral part of this statement.

FORESTHILL PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND ASSESSMENT DISTRICT NO. 2 DEBT SERVICE FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2014

REVENUES:	
Interest income	\$ 4,544
Property taxes	<u>51,352</u>
TOTAL REVENUES	<u>55,896</u>
EXPENDITURES:	
Debt services:	
Interest expense	140,549
Principal payments	<u>61,300</u>
TOTAL EXPENDITURES	<u>201,849</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(145,953)</u>
OTHER FINANCING SOURCES:	
Proceeds from assessment receivable collections	34,232
Transfers in	<u>100,000</u>
TOTAL OTHER FINANCING SOURCES	<u>134,232</u>
NET CHANGE IN FUND BALANCE	<u>(11,721)</u>
FUND BALANCES, July 1:	
As originally stated	-
Prior period adjustment	<u>463,380</u>
As restated	<u>463,380</u>
FUND BALANCES, JUNE 30	<u><u>\$ 451,659</u></u>

The accompanying notes to financial statements are an integral part of this statement.

FORESTHILL PUBLIC UTILITY DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (11,721)

*Amounts reported for governmental activities in the statement of activities
are different because:*

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities:

Repayment of principal 61,300

CHANGE IN NET ASSETS OF GOVERNMENTAL FUNDS \$ 49,579

FORESTHILL PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION - DISTRICT ENTERPRISE FUND AS OF JUNE 30, 2014

ASSETS:

CURRENT ASSETS:

Cash and investments	\$ 517,680
Receivables:	
Accounts receivable, net	198,419
Interest receivable	511
Prepaid expenses	48,928
Inventory - materials and supplies	68,079
TOTAL CURRENT ASSETS	833,617

NONCURRENT ASSETS:

Capital assets, net:	
Nondepreciable	36,568
Depreciable, net	6,830,201
TOTAL NONCURRENT ASSETS	6,866,769

OTHER ASSETS:

Debt issuance costs, net of amortization	113,398
Restricted cash and cash equivalents	1,073,398
TOTAL ASSETS	8,887,182

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 22,566
Retainage payable	28,984
Customer deposits	27,156
Interest payable	23,430
Accrued liabilities	1,497
Due to other funds	54,452
Compensated absences payable	48,795
Other post-employment benefits payable	60,655
Obligation under capital lease, due within one year	2,217
Long-term debt, due within one year	100,000
TOTAL CURRENT LIABILITIES	369,752

NONCURRENT LIABILITIES, due after one year

Obligation under capital lease	2,761
Long-term debt	2,095,000
Add: Bond premium, net of amortization	11,812
TOTAL NONCURRENT LIABILITIES	2,109,573

TOTAL LIABILITIES

\$ 2,479,325

NET POSITION:

Invested in capital assets, net of related debt	\$ 4,654,979
Restricted for:	
Capital reserve	269,904
Repairs and replacement reserve	545,658
Certificates of participation reserve	257,836
Unrestricted	679,480
TOTAL NET POSITION	\$ 6,407,857

The accompanying notes to financial statements are an integral part of this statement.

FORESTHILL PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - DISTRICT ENTERPRISE FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2014

OPERATING REVENUES:	
Sales of water	\$ 1,241,009
Sugar Pine surcharge	220,767
Rehabilitation and system surcharges	376,164
Water service related fees	16,813
Other income	149,954
	<hr/>
TOTAL OPERATING REVENUES	2,004,707
	<hr/>
OPERATING EXPENSES:	
Source of supply	119,900
Pumping	18,190
Water treatment	118,390
Transmission and distribution	205,327
Customer accounts	16,970
Regulatory compliance	23,135
Administration and general	631,058
Depreciation and amortization	276,228
	<hr/>
TOTAL OPERATING EXPENSES	1,409,198
	<hr/>
OPERATING INCOME	595,509
	<hr/>
NONOPERATING REVENUES (EXPENSES):	
Interest income	2,559
Loss on disposition of asset	(6,882)
Grant income	11,500
Property taxes	74,452
Will serve fees	66,862
Interest expense	(114,126)
	<hr/>
TOTAL NONOPERATING REVENUES (EXPENSES)	34,365
	<hr/>
INCOME BEFORE TRANSFERS	629,874
	<hr/>
TRANSFERS:	
Transfer out	(100,000)
	<hr/>
CHANGE IN NET POSITION	529,874
	<hr/>
NET POSITION, JULY 1:	
As originally stated	5,869,449
Prior period adjustments	8,534
As restated	5,877,983
	<hr/>
NET POSITION, JUNE 30	6,407,857
	<hr/> <hr/>

The accompanying notes to financial statements are an integral part of this statement.

FORESTHILL PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS - DISTRICT ENTERPRISE FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 2,006,885
Cash paid to suppliers	(454,349)
Cash paid to employees and related benefits	(740,144)
Interfund borrowings	(107,115)
	<u>705,277</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets	(401,054)
Interest paid	(114,907)
Payments on obligations under capital lease	(2,087)
Payments on long-term debt	(100,000)
	<u>(618,048)</u>
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Payments on interfund accounts	
Grant income received	11,500
Property tax receipts	74,452
Receipts from will serve	66,862
Transfers out	(100,000)
	<u>52,814</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	2,048
	<u>2,048</u>
INCREASE IN CASH AND CASH EQUIVALENTS	142,091
Cash and cash equivalents, July 1	<u>1,448,987</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 1,591,078</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:	
Cash and cash equivalents	\$ 517,680
Restricted cash with fiscal agent	1,073,398
	<u>\$ 1,591,078</u>

The accompanying notes to financial statements are an integral part of this statement.

Reconciliation of operating income from operations to cash provided by operating activities:

Operating income (loss)	\$ 595,509
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation and amortization	276,228
Prior period adjustments	8,534
(Increase) decrease in assets:	
Accounts receivable	590
Inventory	(44,060)
Prepaid costs	(29,024)
Increase (decrease) in liabilities:	
Accounts payable	(51,573)
Retainage payable	28,984
Deposits payable	1,588
Accrued expenses	1,497
Compensated absences	13,762
Due to other funds	(107,115)
Other post-employment benefits payable	10,357
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 705,277</u>

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FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Foresthill Public Utility District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body of establishing governmental accounting and financial reporting principles. As allowed by the GASB, the District has elected to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989 where not in conflict with GASB pronouncements. The more significant of the District's accounting policies are described below.

A. The Reporting Entity

The Foresthill Public Utility District (the District) was formed in 1950 and operates under The Public Utility District Act. The Act confers upon the District the rights and powers to fix rates and charges for commodities or services furnished, to incur indebtedness and issue bonds or other obligations and, under certain circumstances, to levy and collect ad valorem property taxes. The District is governed by a five member Board of Directors elected by the voters within the District.

B. Basis of Presentation

Basis of Presentation - Government-wide Financial Statements: The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties.

Separate financial statements are provided for the Assessment District No. 2 Debt Service governmental fund and District Enterprise proprietary fund.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. When such funds are received they are recorded as deferred revenues until earned. Earned but unbilled water services are accrued as revenue.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues when all eligibility requirements are met.

Basis of Presentation-Fund Financial Statements: The accounts of the District are organized on the basis of funds. A fund is a separate self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds and proprietary funds.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following governmental fund:

Assessment District No. 2 Debt Service Fund – To account for revenues and expenditures associated with the Assessment District No. 2 bonds.

The District reports the following enterprise fund:

District Enterprise Fund – The District Enterprise Fund is used to account for all revenues and expenses for operation maintenance and capital improvement funding of the Foresthill Public Utility District facilities.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Property Taxes

The District receives property taxes from Placer County. Property taxes receivable are recorded in the fiscal year for which the tax is levied based on the property's assessed value. They become a lien on the first day of the year they are levied. Secured property tax is levied on July 1 and due in two installments, on November 1 and March 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1, and become delinquent on August 31. The District elected to receive the property taxes from the County under the Teeter Bill Program. Under this program, the District receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

D. Inventories

Inventories have been valued at the lower of cost (first-in, first-out) or market. Inventories consist of materials and supplies.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents, including restrict assets, along with all pooled deposits and investments in the Local Agency Investment Fund, which are available upon demand.

F. Investments

Investments, including LAIF, are stated at fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on stated fair value as represented by the external pool. Investments are within the State statutes and the District's investment policy.

G. Receivables and Payables

Property and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and are considered available if received within 60 days of year end. Federal and state grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of Net Position. The amount recognized as revenue under the modified accrual basis is limited to the amount that is deemed measurable and collectible.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

The District’s estimates the amount of uncollectible receivables based on prior experience and history. At June 30, 2014, the allowance for doubtful accounts were as follows:

	<u>Accounts receivable</u>	<u>Allowance for doubtful accounts</u>	<u>Accounts receivable, net</u>
District Enterprise Fund	\$ 206,883	\$ (8,464)	\$ 198,419

H. Capital Assets

Capital assets, which include land, ponds, buildings and improvements, machinery and equipment, and vehicles are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. For certain assets, estimated historical costs are used.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets that range from five to forty years.

It is the City’s policy to capitalize all land and equipment with a cost of \$2,500 or more. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures, and changes in fund balances as proceeds from sale.

I. Compensated Absences

Vested or accumulated vacation leave and comp time that is expected to be liquidated with expendable available resources is reported as a current liability. Accumulated sick leave is vested upon age sixty.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Budget and Budgetary Accounting

The Board of Directors annually adopts and operating budget. The operating budgets are prepared on the accrual basis to match the operating statements.

K. Restricted Assets

Certain proceeds of the District's long-term debt are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "reserve" account is used to report resources set aside to make up potential future deficiencies in the bond's debt service.

L. Deferred and Unearned Revenues

Deferred revenues in governmental funds arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when resources are received by the City before it has legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

N. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-activities, or proprietary fund type statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and are amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Net Position

The government-wide financial statements utilize a Net Position presentation. Net Position are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt — This category groups all capital assets into one component of Net Position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position — This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation. As of June 30, 2014, the Restricted Net Position consisted of the following:

Fund Type	Amount	Action
District Enterprise Fund:		
Capital reserve	\$ 269,904	Imposed by board designation
Repairs and replacement reserve	545,658	Imposed by board designation
2003 Certificates of Participation reserve fund	<u>257,836</u>	Imposed by bond indenture
TOTAL RESTRICTED	<u>\$ 1,073,398</u>	

Unrestricted Net Position — This category represents Net Position of the District not restricted for any project or other purpose.

In the government-wide financial statements, when both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

P. Fund Equity

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies its governmental fund balance as follows:

- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

The committed fund balance is comprised of the following:

Fund Type	Amount	Action
Assessment District No. 2 Debt Service Fund:		
Committed for debt service	<u>\$ 451,659</u>	Imposed by bond indenture

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District uses restricted or committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

NOTE 2 – CASH AND INVESTMENTS

Investments

California statutes authorizes the District to invest in a variety of credit instruments as provided for in the California Government Code Section 53600, Chapter 4 - Financial Affairs. The Government Code allows investments in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's, bankers acceptance, repurchase agreements, medium-term corporate notes, mutual funds and the State Treasurer's Local Agency Investment Fund (LAIF).

Local agency Investment Fund

The District maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

Cash and investments at June 30, 2014 are classified in the accompanying financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>TOTALS</u>
Cash and cash equivalents	\$ -	\$ 517,680	\$ 517,680
Restricted cash and cash equivalents	<u>439,575</u>	<u>1,073,398</u>	<u>1,512,973</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 439,575</u>	<u>\$ 1,591,078</u>	<u>\$ 2,030,653</u>

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash and investments at fair value at June 30, 2014 consist of the following:

Cash on hand	\$	250
Clearing account		685
Cash pooled with other government		439,575
Deposits with financial institutions		163,726
Less: outstanding checks		(4,944)
TOTAL CASH AND DEPOSITS		599,292
Investments with the Local Agency Investment Fund		1,173,525
Restricted with fiscal agent		257,836
TOTAL INVESTMENTS		1,431,361
TOTAL CASH AND INVESTMENTS	\$	2,030,653

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have ratings assigned by a nationally recognized statistical organization.

Concentration of Credit Risk

The investment policy of the District limits the amount that can be invested in any one issuer to the lesser of the amount stipulated by the California Government Code or 50% of total investments, with the exception of U.S. Treasury obligations, U.S. Agency Securities and LAIF. As of June 30, 2014, the District had no individual investment that exceeded 5% of its total investments.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution or for amounts held with fiscal agents, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party such as a broker-dealer. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the local amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2014, the carrying amount of the City's deposits was \$158,782 and the balances in financial institutions were \$163,726. Of the balance in financial institutions, the entire was covered by federal depository insurance. The cash pooled with the county totaled \$439,575.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

	<u>Remaining maturity (in months)</u>	
	<u>Total</u>	<u>12 months or less</u>
Local Agency Investment Fund	\$ 1,173,525	\$ 1,173,525
Held by bond trustee:		
Money market mutual funds	<u>257,836</u>	<u>257,836</u>
TOTAL	<u>\$ 1,431,361</u>	<u>\$ 1,431,361</u>

Investment in LAIF

LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount at June 30, 2013 invested by all public agencies in LAIF is \$64,870,214,443 managed by the State Treasurer. The investments are as follows:

	<u>As a percent of portfolio</u>
Structured notes and medium-term asset backed securities	1.09%
Short-term asset-backed commercial paper	0.77%
All other investments	<u>98.14%</u>
	<u>100.00%</u>

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. Copies of LAIF's annual financial report and other information may be obtained from LAIF at 915 Capitol Mall, Room 110, Sacramento, CA 95814 or at its website www.treasurer.ca.gov/pmia-laif/. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS (Continued)

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are amounts required for debt service payments by the 2003 Certificates of Participation and funds set aside, at board discretion, for future plant improvement. At June 30, 2013, the District had set aside the following for special purposes:

Board designated:	
Capital reserve	\$ 269,904
Repair and replacement reserve	545,658
2003 Certificates of Participation reserve fund	<u>257,836</u>
	<u>\$ 1,073,398</u>

NOTE 3 – CAPITAL ASSETS

The changes in capital assets for the business-type activities for the fiscal year ended June 30, 2014 are as follows:

	Balance at July 1, 2013	Additions	Retirements	Balance at June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 36,568	\$ -	\$ -	\$ 36,568
Depreciable capital assets:				
Source of supply	2,630,510	91,987	-	2,722,497
Pumping plant	31,286	-	-	31,286
Water treatment	1,179,256	298,811	-	1,478,067
Transmission and distribution	7,974,712	10,256	(15,888)	7,969,080
General plant	467,026	-	-	467,026
	<u>12,282,790</u>	<u>401,054</u>	<u>(15,888)</u>	<u>12,667,956</u>
Less: accumulated depreciation				
Source of supply	(618,800)	(54,470)	-	(673,270)
Pumping plant	(21,306)	(344)	-	(21,650)
Water treatment	(991,082)	(27,548)	-	(1,018,630)
Transmission and distribution	(3,575,046)	(172,802)	9,006	(3,738,842)
General plant	(369,786)	(15,577)	-	(385,363)
	<u>(5,576,020)</u>	<u>(270,741)</u>	<u>9,006</u>	<u>(5,837,755)</u>
CAPITAL ASSETS, NET	<u>\$ 6,743,338</u>	<u>\$ 130,313</u>	<u>\$ (6,882)</u>	<u>\$ 6,866,769</u>

No interest was capitalized into the costs of the additions for the current fiscal year.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 – COMPENSATED ABSENCES

The District provides vacation time which accrues based upon years of service. Vacation is paid for accumulated time upon termination subject to an accumulated maximum of 2 years accrual.

	Years of service		
	0-4	5-14	>14
Vacation time	<u>10 days</u>	<u>15 days</u>	<u>20 days</u>

The District also provides sick time to employees which accrue at a rate of one day per month with a maximum accrual of 80 days. Sick time may be bought back upon retirement after age 60 based upon a years of service tier schedule.

NOTE 5 – LONG-TERM DEBT

The long-term debt activity for the fiscal year ended June 30, 2014 is as follows:

	Balance at July 1, 2013	Additions	Retirements	Balance at June 30, 2014	Current portion
GOVERNMENTAL ACTIVITIES:					
<u>Assessment District No. 2 Debt Service Fund:</u>					
1997 Improvement Bonds	\$ 1,100,900	\$ -	\$ (25,100)	\$ 1,075,800	\$ 26,400
1998 Improvement Bonds	<u>1,667,400</u>	<u>-</u>	<u>(36,200)</u>	<u>1,631,200</u>	<u>37,900</u>
TOTAL GOVERNMENTAL	<u>2,768,300</u>	<u>-</u>	<u>(61,300)</u>	<u>2,707,000</u>	<u>64,300</u>
BUSINESS-TYPE ACTIVITIES:					
<u>District Enterprise Fund:</u>					
2003 Certificates of Participation	2,295,000	-	(100,000)	2,195,000	100,000
Less: Unamortized premium	14,145	-	(2,333)	11,812	-
Add: Unamortized cost of issuance	<u>(121,218)</u>	<u>-</u>	<u>7,820</u>	<u>(113,398)</u>	<u>-</u>
TOTAL BUSINESS-TYPE	<u>2,187,927</u>	<u>-</u>	<u>(94,513)</u>	<u>2,093,414</u>	<u>100,000</u>
TOTAL LONG-TERM DEBT	<u>\$ 4,956,227</u>	<u>\$ -</u>	<u>\$(155,813)</u>	<u>\$ 4,800,414</u>	<u>\$ 164,300</u>

\$1,364,150 Improvement Bonds – Series 1997: Issued July, 1997 to pay for costs of the acquisition and improvements within the water system. Principal payments ranging from \$12,350 to \$75,000 are due annually beginning September 2, 1998 through 2036 with interest at 4.875% payable semi-annually on March 2 and September 2.

\$1,075,800

\$2,031,318 Improvement Bonds – Series 1998: Issued June, 1998 to pay for costs of the acquisition and improvements within the water system. Principal payments ranging from \$19,118 to \$100,100 are due annually beginning September 2, 1999 through 2037 with interest at 4.75% payable semi-annually on March 2 and September 2.

1,631,200

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 5 – LONG-TERM DEBT (Continued)

\$3,195,000 Certificates of Participation - 2003 Series QQ:, Issued on October 1, 2003 to purchase the Sugar Pine Dam and Reservoir (including associated water rights) from the United States Bureau of Reclamation. The Certificates are secured by a lien on the District's net revenues. Interest rates range from 1.05% to 3.75% on annual \$100,000 principal payments through 2014. Thereafter, through maturity interest rates range from 5% to 5.75%. The District maintains a Trustee reserve fund equal to the maximum annual installment payable. Interest is payable on May 1 and November 1 of each year.

2,195,000

The future annual maturities of long-term borrowings as of June 30, 2013 are as follows:

Year ending June 30	Governmental activities			Business-type activities	
	Improvement bonds	1997	1998	Total	2003 Certificates of participation
2015	\$ 78,202	\$ 114,482	\$ 192,684	\$ 209,963	\$ 402,647
2016	78,183	114,439	192,622	209,838	402,460
2017	78,101	114,408	192,509	209,463	401,972
2018	78,053	114,287	192,340	208,838	401,178
2019	78,035	114,270	192,305	212,838	405,143
2020 - 2024	389,652	570,509	960,161	1,052,738	2,012,899
2025 - 2029	388,294	568,811	957,105	1,051,656	2,008,761
2030 - 2034	386,792	566,960	953,752	-	953,752
2035 - 2039	231,273	451,614	682,887	-	682,887
	1,786,585	2,729,780	4,516,365	3,155,331	7,671,696
Add (less): Interest	(710,785)	(1,098,580)	(1,809,365)	(960,331)	(2,769,696)
Unamortized discount	-	-	-	(113,398)	(113,398)
Unamortized premium	-	-	-	11,812	11,812
	1,075,800	1,631,200	2,707,000	2,093,414	4,800,414
Due within one year	(26,400)	(37,900)	(64,300)	(100,000)	(164,300)
Due after one year	<u>\$ 1,049,400</u>	<u>\$1,593,300</u>	<u>\$2,642,700</u>	<u>\$ 1,993,414</u>	<u>\$4,636,114</u>

NOTE 6 – OBLIGATIONS UNDER CAPITAL LEASE

The District entered in capital lease agreements to finance the purchase of a District office multi-function copier and scanner. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

The capitalized value of the multi-function machine subject to the capital lease is \$8,711 with accumulated amortization of \$871 as of June 30, 2014. The amortization expense is included as part of the total depreciation expense for the District.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6 – OBLIGATIONS UNDER CAPITAL LEASE (Continued)

The obligations under capital lease activity for the fiscal year ended June 30, 2014 follows:

	Balance at July 1, 2013	Additions	Retirements	Balance at June 30, 2014	Current portion
Obligations under capital lease	\$ 7,065	\$ -	\$ (2,087)	\$ 4,978	\$ 2,217

Minimum future lease payments under capital leases as of June 30, 2014 are:

	Payments
2015	\$ 2,457
2016	2,457
2017	409
	5,323
Less: interest	(345)
Present value	\$ 4,978

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Description

Plan administration. The Foresthill Public Utility District's defined benefit pension plan, California Public Employees' Retirement System (CalPERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Foresthill Public Utility District is part of the Public Agency portion of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public entities within the State of California. The District participates in the Miscellaneous 3% at 60 risk pool. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Foresthill Public Utility District selects optional benefits through state statute and District resolutions. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Actuarial Office, P.O. Box 942709, Sacramento, CA 95814.

Pooled Report Format. Since the District's plan has less than 100 active members, it is required to participate in a risk pool.

Plan membership. At June 30, 2012, pension plan pool membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	2,020
Transferred and terminated members or beneficiaries currently receiving benefits	1,777
Active plan members	2,249
	6,046

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Benefits provided. CalPERS provides retirement and disability benefits based on two different valuation plans; Classic and PEPRA. Classic members are those employees who were in the CalPERS retirement system before January 1, 2014. PEPRA members are employees who have been hired and added to the CalPERS system subsequent to December 31, 2013. Retirement benefits for Classic plan members are calculated as 3 percent of the member's highest 3-year average salary times the member's years of service. Plan members with 5 years of accumulated service are eligible to retire at age 60. Classic plan members may retire at any age after 30 years of service. PEPRA (Public Employees' Pension Reform Act) employees retirement benefits are calculated at 2% of the Plan members 3-highest years averaged salaries times the number of years of service and are eligible to retire at age 62. All plan members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. A plan member who leaves District service may withdraw his or her contributions, plus any accumulated interest.

Contributions. Classic Participants are required to pay 8% of covered payroll. The Foresthill Public Utility District is required to contribute at the actuarially determined rate necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year ended June 30, 2014 was 15.69% for a contribution of \$58,943.

PEPRA employees are required to pay no less than 50% of the actuarially determined cost of the retirement plan. For the fiscal years ending June 30, 2014 and 2015, the total actuarially determined cost of retirement for PEPRA participants is 12.5% of payroll. PEPRA participants pay 6.25% of payroll into the plan.

The contribution requirement of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Investments

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the CalPERS Board by a majority vote of its members. It is the policy of the CalPERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2012:

<u>Asset Class</u>	<u>Market Value (\$ Billion)</u>	<u>Policy Target Allocation</u>
Public equity	\$ 113.0	50.00%
Private equity	33.9	14.00%
Fixed income	42.6	17.00%
Cash equivalents	7.5	4.00%
Real assets	24.8	11.00%
Inflation assets	7.0	4.00%
Absolute return strategy (ARS)	5.1	0.00%
TOTAL FUND	<u>233.9</u>	

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Rate of return. For the year ended June 30, 2012, the rate of return on pension plan investments, gross of fees, was 0.10 percent.

Unfunded Accrued Liability

The components of the unfunded accrued liability of CalPERS at June 30, 2012, were as follows:

Total present value of projected benefits	\$ 1,081,962,506
Market value of assets	<u>(766,020,280)</u>
Unfunded accrued liability	<u>315,942,226</u>
Market value of assets as a percentage of the total present value of projected benefits	<u>70.80%</u>

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2012, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.00%
Investment rate of return	7.50%, net of administrative expenses

The mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date. The mortality assumption will be reviewed with the next experience study expected to be completed for the June 30, 2013 valuation to determine an appropriate margin to be used.

The actuarial assumptions used in the June 30, 2012 valuation were based on the member and financial data as of June 30, 2012 provided by the various CalPERS databases and the benefits under this Risk Pool with CalPERS as of the date this report was produced.

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Sensitivity of the net pension liability to changes in the discount rate.

The following analysis looks at the 2014-15 employer contribution rates under two different discount rate scenarios. Shown below are the employer contribution rates assuming discount rates that are 1 percent lower and 1 percent higher than the current valuation discount rate. This analysis gives an indication of the potential required employer contribution rates if the Public Employees Retirement Fund were to realize investment returns of 6.50 percent or 8.50 percent over the long-term.

This type of analysis gives the reader a sense of the long-term risk to the risk pool contribution rates.

	Discount rates		
	6.50% (-1%)	7.50% (assumed)	8.50% (+1%)
Pool's gross employer normal cost	16.00%	11.60%	8.10%
Payment on pool's amortization bases	12.70%	5.70%	-0.70%
TOTAL	28.70%	17.30%	7.40%

NOTE 8 – SECTION 457 PLAN

The District adopted a California PERS Section 457 Deferred Compensation Plan. The District does not contribute to this plan. All contributions and administrative fees are paid by the employees.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The District offers medical, dental or other health benefits to eligible retirees and their eligible dependents. The contribution requirements of the plan members and the District are established and may be amended by the District.

Under the current health plan, the District pays for coverage of the retiree and their eligible dependents. To be eligible, employees must retire with the District at age 60 or older or must be permanently disabled. For the year ended June 30, 2014, the District contributed for five retirees that received benefits at a cost of approximately \$47,071.

Annual OPEB Cost and Net OPEB Obligation:

The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension. The District's ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Healthcare Plan:

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the Plan (as described in the funding policy above as the amortized portion of the Unfunded Actuarial Accrued Liability), and the Net Required Amortized OPEB Obligation for June 30, 2014 is as follows:

Annual required contribution	\$ 53,298
Interest on net OPEB obligation	4,130
Adjustment of annual required contribution	-
Annual required OPEB cost	57,428
Contribution made	(47,071)
Net OPEB obligation, July 1	50,298
Net OPEB obligation, June 30	\$ 60,655

Funded Status and Funding Progress

The Schedule of Funding Status and Progress below is based on an actuarial valuation as of July 28, 2014 the plan's most recent actuarial valuation. The unmet annual net OPEB obligation since the prospective implementation of the GASB Statement 45 shows:

	<u>Valuation Date</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Unmet annual net OPEB obligation</u>
June, 2012	January 5, 2011	\$ 73,237	\$ 73,237	100.00%	\$ 50,298
June, 2013	January 5, 2011	74,315	74,315	100.00%	50,298
June, 2014	July 28, 2014	57,428	47,071	81.97%	60,655

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

In the July 28, 2014 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return, an assumed inflation rate, and an increase in covered payroll at the rate of 3.25% per year. Medical premiums have been assumed to rise at a decreasing rate (from 9% in 2010 to 4.5% in 2017) and dental premiums by 3%.

The OPEB Plan's unfunded actuarial liability is being amortized by level percent of payroll contributions over 30 years. The remaining amortization period at June 30, 2014 was 27 years.

NOTE 10 – INTERFUND TRANSACTIONS

Interfund balances for operations as of June 30, 2014 were as follows:

Fund	Due from other funds	Due to other funds
GOVERNMENTAL ACTIVITIES:		
Assessment District No. 2 Debt Service Fund	\$ 54,452	\$ -
BUSINESS-TYPE ACTIVITIES:		
District Enterprise Fund	-	54,452
TOTALS	\$ 54,452	\$ 54,452

Interfund transfers for operations as of June 30, 2014 were as follows:

Fund	Transfer in	Transfer out
GOVERNMENTAL ACTIVITIES:		
Assessment District No. 2 Debt Service Fund	\$ 100,000	\$ -
BUSINESS-TYPE ACTIVITIES:		
District Enterprise Fund	-	100,000
TOTALS	\$ 100,000	\$ 100,000

NOTE 11 – RISK OF LOSS

Foresthill Public Utility District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2013 and 2014 fiscal years, the District purchased certain commercial insurance coverage to provide for these risks with liability limits of \$10,000,000. There have been no significant reduction in coverage from coverage in the prior year and there have not been any settlements that have exceeded the coverage in the past three years.

FORESTHILL PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 12 – SUBSEQUENT EVENTS

On August 1, 2014, the District issued the \$2,081,149 Series 2014 Water Revenue Refunding Loan Bonds to refund the outstanding 2003 Series QQ Certificates of Deposit. The total of \$2,234,674 was placed in escrow. The sources of the funds were \$2,008,337 from the proceeds of the Series 2014 Water Revenue Refunding Loan Bonds and \$226,337 were from the reserve accounts of the 2003 Series QQ Certificates of Deposit.

Management has evaluated subsequent events through September 26, 2013, the date these June 30, 2014 financial statements were available to be issued.

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

ASSESSMENT DISTRICT NO. 2 DEBT SERVICE FUND

Under the Government Accounting Standards Board Statement (GASBS) No. 14, *The Financial Reporting Entity* as amended by GASBS No. 39 and 61, the operations and activity of the Foresthill Public Utility Assessment District No. 2 has incorporated into the reporting model of the District. Previously it had been omitted and treated as a separate independent entity. As a result, the government-wide financial statements reflect a net position as of July 1, 2013 of \$(2,304,920). The governmental fund financial statements now report a fund balance as of July 1, 2013 of \$463,380.

INVENTORY

The reported inventory at June 30, 2013 was understated by \$32,745 with a corresponding understatement of net position for the District Enterprise Fund by the same amount.

UNRECORDED ACCRUALS

Certain accruals were not record in the prior fiscal year resulting in an understatement of interest expense of \$24,211 for the fiscal year end June 30, 2013 and with a corresponding overstatement of net position for the District Enterprise Fund by the same amount.



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REQUIRED SUPPLEMENTARY INFORMATION



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FORESTHILL PUBLIC UTILITY DISTRICT

SCHEDULE OF UNFUNDED ACCRUED LIABILITY AND CHANGE IN MARKET VALUE OF ASSETS - CALPERS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

UNFUNDED ACCRUED LIABILITY

Present value of projected benefits:	
Active members	\$ 700,040,470
Transferred members	68,539,082
Separated members	28,617,212
Members and beneficiaries receiving payments	<u>499,520,105</u>
Total present value of projected benefits	1,296,716,869
Present value of future employer normal costs	(124,563,806)
Present value of future employer contributions	<u>(90,190,557)</u>
Total present value of projected benefits	1,081,962,506
Market value of assets	<u>(766,020,280)</u>
UNFUNDED ACCRUED LIABILITY, JUNE 30, 2012*	<u><u>\$ 315,942,226</u></u>

PLAN MARKET VALUE OF ASSETS

Contributions - employer	\$ 51,643,137
Contributions - member	13,175,273
Benefit payments to retirees and beneficiaries	(38,589,121)
Refunds	(942,794)
Transfers and miscellaneous adjustments	(2,477,264)
Investment return	<u>(1,379,550)</u>
Net change in actuarial value	21,429,681
Market value of assets, July 1, 2011	<u>744,590,599</u>
MARKET VALUE OF ASSETS, JUNE 30, 2012*	<u><u>\$ 766,020,280</u></u>
Pension liability as a percentage of market value of assets	41.24%
Covered - employee payroll	153,161,984
Market value of assets as a percentage of covered - employee payroll	500.14%

* Most recent available data

NOTE: Individual participating entity data is not available

FORESTHILL PUBLIC UTILITY DISTRICT

SCHEDULE OF CONTRIBUTIONS FOR THE FISCAL YEAR ENDED JUNE 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	\$ 73,474	\$ 78,589	\$ 78,270	\$ 65,418	\$ 61,750	\$ 47,470
Contribution in relation to the actuarially determined contribution	<u>(58,943)</u>	<u>(59,888)</u>	<u>(76,204)</u>	<u>(57,649)</u>	<u>(63,379)</u>	<u>(65,611)</u>
Contribution deficiency (excess)	<u>\$ 14,531</u>	<u>\$ 18,701</u>	<u>\$ 2,066</u>	<u>\$ 7,769</u>	<u>\$ (1,629)</u>	<u>\$ (18,141)</u>
Covered-employee payroll	\$ 376,118	\$ 389,136	\$ 520,697	\$ 459,391	\$ 494,607	\$ 493,576
Contributions as a percentage of covered employee payroll	15.67%	15.39%	14.63%	12.55%	12.81%	13.29%

NOTES TO SCHEDULE

Valuation date: June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll on a closed basis
Remaining amortization period	18 years as of the Valuation date (June 30, 2012)
Asset valuation method	15 year smoothed market
Inflation	2.75%
Salary increases	3.00%
Investment rate of return	7.50%, net of administrative expenses
Retirement age	A CalPERS member becomes eligible for Service Retirement upon attainment of age 50 with at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements). For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least 5 years of service.
Mortality	The mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date. The mortality assumption will be reviewed with the next experience study expected to be completed for the June 30, 2013 valuation to determine an appropriate margin to be used.

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 53,220	\$ 47,838	\$ 31,206	\$ 28,318
<u>(61,899)</u>	<u>(35,122)</u>	<u>(31,206)</u>	<u>(28,318)</u>
<u>\$ (8,679)</u>	<u>\$ 12,716</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 455,642	\$ 248,002	\$ 220,350	\$ 199,958
13.59%	14.16%	14.16%	14.16%

FORESTHILL PUBLIC UTILITY DISTRICT

SCHEDULE OF INVESTMENT RETURNS FOR THE FISCAL YEAR ENDED JUNE 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Annual returns	<u>0.10%</u>	<u>21.70%</u>	<u>13.30%</u>	<u>(24.00%)</u>	<u>(5.10%)</u>	<u>19.10%</u>	<u>11.80%</u>	<u>12.30%</u>	<u>16.60%</u>	<u>3.70%</u>

SUPPLEMENTAL INFORMATION



FORESTHILL PUBLIC UTILITY DISTRICT

SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION - BUDGET AND ACTUAL - DISTRICT ENTERPRISE FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES:				
Sales of water	\$ 1,167,691	\$ 1,167,691	\$ 1,241,009	\$ 73,318
Sugar Pine surcharge	226,637	226,637	220,767	(5,870)
Rehabilitation and system surcharges	361,747	361,747	376,164	14,417
Water service related fees	43,250	43,250	16,813	(26,437)
Other income	-	-	149,954	149,954
TOTAL OPERATING REVENUES	<u>1,799,325</u>	<u>1,799,325</u>	<u>2,004,707</u>	<u>205,382</u>
OPERATING EXPENSES:				
Source of supply	81,299	81,299	119,900	38,601
Pumping	16,591	16,591	18,190	1,599
Water treatment	143,206	143,206	118,390	(24,816)
Transmission and distribution	181,686	181,686	205,327	23,641
Customer accounts	8,287	8,287	16,970	8,683
Regulatory compliance	-	-	23,135	23,135
Administration and general	750,883	750,883	631,058	(119,825)
Depreciation and amortization	-	-	276,228	276,228
TOTAL OPERATING EXPENSES	<u>1,181,952</u>	<u>1,181,952</u>	<u>1,409,198</u>	<u>227,246</u>
OPERATING INCOME	<u>617,373</u>	<u>617,373</u>	<u>595,509</u>	<u>(21,864)</u>
NONOPERATING REVENUES (EXPENSES):				
Interest income	1,600	1,600	2,559	959
Loss on disposition of asset	-	-	(6,882)	(6,882)
Grant income	-	-	11,500	11,500
Property taxes	70,962	70,962	74,452	3,490
Will serve fees	18,776	18,776	66,862	48,086
Interest expense	(114,338)	(114,338)	(114,126)	212
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(23,000)</u>	<u>(23,000)</u>	<u>34,365</u>	<u>57,365</u>
INCOME BEFORE TRANSFERS	594,373	594,373	629,874	35,501
TRANSFERS:				
Transfer out	-	-	(100,000)	(100,000)
CHANGE IN NET POSITION	<u>\$ 594,373</u>	<u>\$ 594,373</u>	<u>\$ 529,874</u>	<u>\$ (64,499)</u>

FORESTHILL PUBLIC UTILITY DISTRICT

SCHEDULE OF OPERATING EXPENSES - DISTRICT ENTERPRISE FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SOURCE OF SUPPLY

Supervision and labor	\$ 21,573
Materials and supplies	12,734
Restoration fee	18,353
Equipment costs	4,892
General engineering services	3,583
Contract services	10,750
Vehicle expense	2,948
Power	3,431
Inspection and water rights	36,883
Other expenses	4,753

TOTAL SOURCE OF SUPPLY

119,900

PUMPING

Supervision and labor	8,871
Power	6,544
Materials and supplies	532
Equipment costs	804
Propane	933
Other expenses	506

TOTAL PUMPING

18,190

WATER TREATMENT

Supervision and labor	81,120
Materials and supplies	7,884
Maintenance	207
Chemical and analysis	18,751
Vehicle expense	3,423
Power	3,526
Propane	587
Other expenses	2,892

TOTAL WATER TREATMENT

118,390

TRANSMISSION AND DISTRIBUTION

Supervision and labor	172,639
Materials and supplies	16,114
Maintenance	1,996
Vehicle expense	11,267
Contract services	2,099
Propane	165
Other expenses	1,047

TOTAL TRANSMISSION AND DISTRIBUTION

205,327

FORESTHILL PUBLIC UTILITY DISTRICT

SCHEDULE OF OPERATING EXPENSES - DISTRICT ENTERPRISE FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CUSTOMER ACCOUNTS

Supervision and labor	5,407
Materials and supplies	2,680
Contract services	5,937
Other expenses	2,946
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TOTAL CUSTOMER ACCOUNTS

16,970

REGULATORY COMPLIANCE

Supervision and labor	3,715
Materials and supplies	409
Maintenance	243
Chemical and analysis	1,552
Contract services	9,109
Restoration fee	4,571
Other expenses	3,536
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TOTAL REGULATORY COMPLIANCE

23,135

ADMINISTRATIVE AND GENERAL

Supervision and labor	462,078
Materials and supplies	24,405
Maintenance	3,342
Contract services	74,300
Utilities	10,758
Other expenses	56,175
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TOTAL ADMINISTRATIVE AND GENERAL

631,058

TOTAL OPERATING EXPENSES BEFORE DEPRECIATION AND AMORTIZATION

\$ 1,132,970

OTHER REPORTS



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BOLER & ASSOCIATES

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Foresthill Public Utility District
Foresthill, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the business-type activities of the Foresthill Public Utility District as of and for the year ended June 30, 2014, which collectively comprise the Foresthill Public Utility District's basic financial statements and have issued our report thereon dated September 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Foresthill Public Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foresthill Public Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foresthill Public Utility District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Foresthill Public Utility District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



September 26, 2014