

**FORESTHILL
PUBLIC UTILITY DISTRICT**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
for the year ended June 30, 2006**

ROBERT W. JOHNSON
Certified Public Accountant

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W.

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An Accountancy Corporation

Certified Public Accountant

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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 Foresthill Public Utility District (the "District") as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foresthill Public Utility District as of June 30, 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by the Government Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Foresthill Public Utility District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Robert W. Johnson, An Accountancy Corporation

Citrus Heights, California
August 16, 2006

FORESTHILL PUBLIC UTILITY DISTRICT

www.foresthillpud.com

BOARD OF DIRECTORS

Brett C. Grant
George S. Shaw
Gregory L. Wells
Duane L. Frink
William L. Sadler, Jr.

Kurt W. Reed, General Manager
Paul Chamberlain, District Counsel

Management's Discussion and Analysis For Fiscal Year July 1, 2005 - June 30, 2006

The following discussion and analysis of the Foresthill Public Utility District (the "District") and its financial performance provides an overview of the District's financial activities, prepared by its management for the year ended June 30, 2006. This discussion and analysis should be read in conjunction with the District's financial statements and accompanying notes, which follow this section.

Background

The District was formed in 1950 pursuant to the provisions of Section 15501 et. seq. California Public Utilities Code for the purpose of operating a water system. The District's service area comprises the unincorporated community of Foresthill, California, located in Placer County approximately 60 miles Northeast of Sacramento. The District is governed by a five member Board of Directors, and currently employs 8 full-time employees. The District currently incorporates an area of approximately 13,000 acres and contains primarily residential development. The District has a population of approximately 5,900, and as of June 30, 2006 provided 1,923 water service connections.

Rates and Charges

The District places a high priority on rate stability while providing exceptional service to its customers. To control rate increases the District implements a conservative, long-term planning approach that controls spending and focuses expenditures on the highest priorities. The District's water rates increased 12.82% in September 2001, the first increase since 1993. This brought the rate for basic residential service for 0-10,000 gallons from \$19.50 to \$22.00 per month. The District is proposing a rate increase of 13.64% for Fiscal Year 2006-2007.

Financial Reporting

Management's discussion and analysis of the Foresthill Public Utility District's financial performance provides an overview of the District's activities, as well as, its financial condition for the year ended June 30, 2006. For this report, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34 that establishes financial reporting standards for state and local governments, including enterprise districts such as Foresthill PUD.

The District's finances span three separate funds:

1. Enterprise Fund – this is the operating fund of the District. It is used to account for the day-to-day operations, which is financed and operated in a manner similar to private business enterprises. This allows the District to determine that the costs (expenses, including depreciation) of providing drinking water on a continuing basis are financed or recovered primarily through user charges.
Also accounted for within the Enterprise Fund: 2003 Certificate of Participation – Sugar Pine Project Acquisition – Issuance of Certificate(s) of Participation through California Special District Finance Corporation pledging revenues of District to repay twenty-five (25) year debt. November 2003 the District acquired the Sugar Pine Dam & Reservoir Project from U.S. Bureau of Reclamation. A \$6.50 Sugar Pine Surcharge is collected each month from each active water customer to provide sufficient revenues for retirement of debt service.
2. Improvement Bond Fund – in 1982 the District created the existing treatment plant by assessing all parcels within District boundaries. This assessment will continue for 40 years or until which time the assets equal the liabilities and the debt can be extinguished.
3. Assessment District No. 2 – in 1997 the District upgraded its distribution system to improve fire flow and pressures in the system. The improvements were funded by assessing each parcel within 500 feet of an existing main water line. This assessment also will continue for 40 years or until which time the assets equal the liabilities and the debt can be extinguished.

Financial Highlights

- Fiscal Year 2005-2006 General Fund revenues were up 1.01% over Fiscal Year 2004-2005 revenues (\$1,092,527 vs. \$1,081,496). Expenses were up 3.01% for the same period (\$1,050,177 vs. \$1,019,480).
- End of Fiscal Year 2005-2006 District General Reserve Fund was off 8.78% compared to the previous year (\$490,330 vs. \$537,525).
- Contributed Revenue for Fiscal Year 2005-2006 was \$473,057. This is the total dollar value of constructed and installed water system infrastructure, equipment and studies of same, paid for by new development and others formally accepted by District Board of Directors for Operations and Maintenance.

| | |
|---|-----------|
| 1. Whitehawk Ridge Estates - infrastructure | \$122,124 |
| 2. Curtis Smith – Bean Camp Area Project - infrastructure | \$ 15,000 |
| 3. Yankee Jim's Water Supply Study – PCWA Grant | \$ 3,438 |
| 4. Monte Verde Phase II - infrastructure | \$298,935 |
| 5. Monte Verde Phase II – Vacuum Unit - equipment | \$ 33,560 |

Requests for Information

Interested persons may direct their inquiries regarding the information contained in this Annual Financial Report to:

Kurt W. Reed, General Manager kreed@foresthillpud.com (530) 367-2511

Patricia L. Pappas, Business Manager ppappas@foresthillpud.com (530) 367-2511

PO Box 266

24540 Main Street

Foresthill, CA 95631

**FORESTHILL PUBLIC UTILITY DISTRICT
COMBINED BALANCE SHEET**

June 30, 2006

(with comparative totals for fiscal year ended June 30, 2005)

ASSETS

| | Enterprise Fund | Improvement Bond Fund | Assessment District No. 2 | Totals (Memorandum only) 2006 | 2005 |
|------------------------------------|---------------------|--------------------------|------------------------------|--|---------------------|
| Current assets: | | | | | |
| Cash in checking | \$ 3,894 | \$ | \$ | \$ 3,894 | \$ 13,737 |
| Temporary investments | 490,330 | | | 490,330 | 537,526 |
| Accounts receivable | 94,604 | | | 94,604 | 86,781 |
| Prepaid expenses | - | | | - | 28,982 |
| Inventory - materials and supplies | <u>41,001</u> | | | <u>41,001</u> | <u>14,030</u> |
| Total current assets | <u>629,829</u> | | | <u>629,829</u> | <u>681,056</u> |
| Capital assets, at cost (Note 4) | 11,887,213 | | | 11,887,213 | 11,310,595 |
| Less, accumulated depreciation | <u>3,734,612</u> | | | <u>3,734,612</u> | <u>3,411,158</u> |
| | 8,152,601 | | | 8,152,601 | 7,899,437 |
| Construction in progress | <u>-</u> | | | <u>-</u> | <u>3,438</u> |
| | <u>8,152,601</u> | | | <u>8,152,601</u> | <u>7,902,875</u> |
| Debt issuance costs, net | <u>175,961</u> | | | <u>175,961</u> | <u>183,781</u> |
| Restricted assets: | | | | | |
| Temporary investment – reserves | 663,138 | | | 663,138 | 593,648 |
| Certif. of Partic. – reserve fund | <u>269,379</u> | | | <u>269,379</u> | <u>265,202</u> |
| | <u>932,517</u> | | | <u>932,517</u> | <u>858,850</u> |
| Improvement Bond Fund: | | | | | |
| Future assessments receivable | | 411,684 | | 411,684 | 392,848 |
| Temporary investments | | 252,960 | | 252,960 | 288,745 |
| Assessment District No. 2: | | | | | |
| Temporary investments | | | 408,618 | 408,618 | 384,628 |
| Future assessments receivable | | | <u>2,415,072</u> | <u>2,415,072</u> | <u>2,520,311</u> |
| | <u>\$ 9,890,908</u> | <u>\$ 664,644</u> | <u>\$ 2,823,690</u> | <u>\$13,379,242</u> | <u>\$13,213,094</u> |

See notes to financial statements

LIABILITIES AND NET ASSETS

| | Enterprise Fund | Improvement Bond Fund | Assessment District No. 2 | Totals (Memorandum only) | |
|---|--------------------|--------------------------|------------------------------|--------------------------------|---------------------|
| | | | | 2006 | 2005 |
| Current liabilities: | | | | | |
| Current portion of long-term debt (Note 6) | \$ 100,000 | \$ | \$ | \$ 100,000 | \$ 100,000 |
| Current portion of capital lease (Note 12) | 24,719 | | | 24,719 | 23,338 |
| Accounts payable | 8,147 | | | 8,147 | 39,715 |
| Compensated absences payable | 38,744 | | | 38,744 | 33,709 |
| Customer deposits | <u>27,213</u> | | | <u>27,213</u> | <u>28,920</u> |
| Total current liabilities | <u>198,823</u> | | | <u>198,823</u> | <u>225,682</u> |
| | | | | | |
| Long-term debt, net of current portion (Note 6) | 2,895,000 | | | 2,895,000 | 2,995,000 |
| Add, bond premium, net of amortization | <u>30,476</u> | | | <u>30,476</u> | <u>32,809</u> |
| | 2,925,476 | | | 2,925,476 | 3,027,809 |
| Capital lease (Note 12) | <u>38,684</u> | | | <u>38,684</u> | <u>63,403</u> |
| | <u>2,964,160</u> | | | <u>2,964,160</u> | <u>3,091,212</u> |
| | | | | | |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | 5,063,722 | | | 5,063,722 | 4,688,325 |
| Restricted (Note 11) | 932,517 | | | 932,517 | 858,850 |
| Unrestricted | <u>731,686</u> | | | <u>731,686</u> | <u>762,493</u> |
| | <u>6,727,925</u> | | | <u>6,727,925</u> | <u>6,309,668</u> |
| | | | | | |
| Improvement Bond Fund: | | | | | |
| Bonds payable (Note 5) | | 515,000 | | 515,000 | 535,000 |
| Fund equity | | 149,644 | | 149,644 | 146,593 |
| | | | | | |
| Assessment District No. 2: | | | | | |
| Bonds payable (Note 9) | | | 3,125,700 | 3,125,700 | 3,167,800 |
| Fund deficit | _____ | _____ | (302,010) | (302,010) | (262,861) |
| | <u>\$9,890,908</u> | <u>\$ 664,644</u> | <u>\$2,823,690</u> | <u>\$13,379,242</u> | <u>\$13,213,094</u> |

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the year ended June 30, 2006
(with comparative totals for fiscal year ended June 30, 2005)

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|-------------------|
| Operating revenues: | | |
| Sales - residential | \$ 644,933 | \$ 638,988 |
| - business | 194,780 | 191,742 |
| - industrial | 285 | 270 |
| Service connections | 26,875 | 28,125 |
| Will serve | 173,000 | 215,025 |
| Sugar Pine surcharge | 173,514 | 169,617 |
| Other | <u>43,781</u> | <u>80,358</u> |
| Total operating revenues | <u>1,257,168</u> | <u>1,324,125</u> |
| Operating expenses: | | |
| Source of supply | 79,545 | 60,109 |
| Pumping | 6,985 | 6,931 |
| Water treatment | 120,343 | 112,608 |
| Transmission and distribution | 124,369 | 152,929 |
| Customer accounts | 19,586 | 16,003 |
| Administrative and general | 467,564 | 447,557 |
| Depreciation | <u>323,454</u> | <u>299,416</u> |
| Total operating expenses | <u>1,141,846</u> | <u>1,095,553</u> |
| Operating income (loss) | <u>115,322</u> | <u>228,572</u> |
| Non-operating income and (expense): | | |
| Interest income | 47,326 | 24,022 |
| Property taxes | 24,631 | 15,825 |
| Interest expense | (142,079) | (139,148) |
| Assistance - Assessment District #2 | <u>(100,000)</u> | <u>(100,000)</u> |
| | <u>(170,122)</u> | <u>(199,301)</u> |
| Income before contributions | (54,800) | 29,271 |
| Capital contributions | <u>473,057</u> | <u>94,795</u> |
| Changes in net assets (carried forward) | 418,257 | 124,066 |

See notes to financial statements

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS, continued
for the year ended June 30, 2006
(with comparative totals for fiscal year ended June 30, 2005)

| | <u>2006</u> | <u>2005</u> |
|--|--------------------|--------------------|
| Change in net assets (brought forward) | \$ 418,257 | \$ 124,066 |
| Total net assets: | | |
| Beginning | <u>6,309,668</u> | <u>6,185,602</u> |
| Ending | <u>\$6,727,925</u> | <u>\$6,309,668</u> |

See notes to financial statements

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
for the year ended June 30, 2006
(with comparative totals for fiscal year ended June 30, 2005)

| | <u>2006</u> | <u>2005</u> |
|--|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Receipts from customers | \$1,249,028 | \$1,302,724 |
| Payments to suppliers | (462,536) | (361,965) |
| Payments to employees | <u>(376,280)</u> | <u>(370,815)</u> |
| Net cash provided by operating activities | <u>410,212</u> | <u>569,944</u> |
| Cash flows from noncapital financing activities: | | |
| Receipts from property taxes and other nonoperating income | <u>24,631</u> | <u>15,825</u> |
| Cash flows from capital and related financing activities: | | |
| Capital contributions | 473,057 | 94,795 |
| Purchase of capital assets | (573,180) | (345,551) |
| Interest paid on capital debt | (142,079) | (139,148) |
| Establish Reserve Fund-COP issue | (4,178) | (28,239) |
| Assistance to Assessment Dist. No. 2 | (100,000) | (100,000) |
| Proceeds from capital leases | - | 98,542 |
| Principal payments on long-term debt | <u>(123,338)</u> | <u>(111,801)</u> |
| | <u>(469,718)</u> | <u>(531,402)</u> |
| Cash flows from investing activities: | | |
| Interest income | <u>47,326</u> | <u>24,022</u> |
| Net increase in cash and cash equivalents | 12,451 | 78,389 |
| Cash and cash equivalents: | | |
| Beginning of year | <u>1,144,911</u> | <u>1,066,522</u> |
| End of year | <u>\$1,157,362</u> | <u>\$1,144,911</u> |

See notes to financial statements

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS, continued
for the year ended June 30, 2006
(with comparative totals for fiscal year ended June 30, 2005)

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|-------------------|
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating income (loss) | \$ <u>115,322</u> | \$ <u>228,572</u> |
| Amortization on Certificates of Participation costs, net | 5,488 | 5,488 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation expense | 323,454 | 299,416 |
| Changes in operating assets and liabilities: | | |
| Receivables | (7,823) | 21,401 |
| Prepaid expense | 28,982 | (28,982) |
| Inventory | (26,971) | (170) |
| Accounts payable | (31,568) | 39,715 |
| Customer deposits | 5,035 | 4,354 |
| Compensated absences | (<u>1,707</u>) | <u>150</u> |
| | <u>294,890</u> | <u>341,372</u> |
| Net cash provided by operating activities | \$ <u>410,212</u> | \$ <u>569,944</u> |
| Supplementary information: | | |
| Cash paid for interest | \$ <u>142,079</u> | \$ <u>133,660</u> |

See notes to financial statements

**FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

1. Organization:

The Foresthill Public Utility District was formed 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 advalorem property taxes. The District is exempt from payment of federal and state taxes on income.

2. Summary of Significant Accounting Policies:

The accounting policies of the Foresthill Public Utility District conform to generally accepted accounting principles applicable to enterprise funds. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Basis of Accounting

The District's books and accounts are based upon the Uniform System of Accounts for Public Utilities as prescribed by the Division of Local Government Fiscal Affairs of the State of California. The records are maintained and the accompanying financial statements are presented on the accrual basis of accounting.

Fund Accounting

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report as follows:

Enterprise Fund - The Enterprise Fund is used to account for water operations that are financed and operated in a manner similar to private business enterprises. The intent of the District is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Improvement Bond Fund - This fund is to account for financing of public improvements or services deemed to benefit the properties against which special assessments are levied.

Assessment District No. 2 - This fund is to account for a new financing of public improvements.

Inventories

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

Depreciation

Water utility plant is recorded on the basis of purchase cost. Assets acquired by contributions are recorded at estimated cost or fair market value at the date of acquisition.

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

Statement of Cash Flows

All highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents. The investment with the State Treasurer's Local Agency Investment Fund (LAIF) is also considered to be the equivalent of cash.

Investments

Investments consist of LAIF (State of California pooled investment fund). Investments are stated at market value. Such investment is within the State statutes and the District's investment policy.

Compensated Absences

Vested or accumulated vacation leave, sick pay and comp. time that is expected to be liquidated with expendable available resources is reported as a current liability.

Budget and Budgetary Accounting

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

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Total Columns

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation.

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.

Bond Premium and Issuance Costs

Bond premium is deferred and amortized over the life of the Certificates of Participation using the effective interest method. Issuance costs are deferred and amortized over the life of the Certificates using the straight-line method.

3. Cash and Investments:

Cash and investments consist of the following at June 30, 2006:

| | |
|----------------------------|--------------------|
| Unrestricted | \$ 494,224 |
| Restricted | <u>663,138</u> |
| Total cash and investments | <u>\$1,157,362</u> |

**FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued**

3. Cash and Investments (continued):

Deposits:

At year-end the carrying amount of the District's deposits was \$3,894 and the bank balance was \$25,171. All of the bank balance was covered by Federal depository insurance.

| | <u>Balance, June 30, 2006</u> |
|----------------|---------------------------------------|
| Checking | \$ 3,619 |
| Other deposits | 25 |
| Cash on hand | <u>250</u> |
| Total deposits | <u>\$ 3,894</u> |

Investments:

California statutes authorize 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 Commercial Paper Record, bankers' acceptances, repurchase agreements, medium-term corporate notes, mutual funds and the State Treasurer's Local Agency Investment Fund (LAIF). The investment in LAIF is reported at fair value.

| | <u>Carrying Amount</u> | <u>Market Value</u> |
|---|----------------------------|-------------------------|
| Balance, June 30, 2006, Local Agency Investment Fund | <u>\$1,153,468</u> | <u>\$1,153,468</u> |

Pursuant to Government Accounting Standards Board Statement 3, the investment in LAIF is not classified in categories of credit risk. The District's funds in LAIF are invested in a diversified portfolio (of underlying investments e.g. U.S. Treasury obligations) such that it considers the risk of material loss to be minimal. The funds held in LAIF can be withdrawn on demand.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

3. Cash and Investments (continued):

Restricted investments:

The District sets aside funds for future plant improvements. At June 30, 2006, the District had set aside the following in investments for special purposes:

| | <u>Balance, June 30, 2006</u> |
|-----------------------------------|---------------------------------------|
| Sugar Pine surcharge | \$ 55,047 |
| Future filtration benefit reserve | 112,736 |
| Capital reserve | <u>495,355</u> |
| Total restricted investments | <u>\$ 663,138</u> |

4. Water Utility Plant:

At June 30, 2006 the District's investment in plant consists of:

| | <u>Cost</u> | <u>Accumulated Depreciation</u> |
|-------------------------------|---------------------|-------------------------------------|
| Land | \$ 36,568 | \$ - |
| Source of supply | 2,630,510 | 254,103 |
| Pumping plant | 20,962 | 18,629 |
| Water treatment | 1,125,202 | 820,900 |
| Transmission and distribution | 7,421,254 | 2,197,901 |
| General plant | <u>652,717</u> | <u>443,079</u> |
| | <u>\$11,887,213</u> | <u>\$ 3,734,612</u> |

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

5. Bond Issue:

The District issued bonds dated May 2, 1982 pursuant to the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915 in the total amount of \$817,250. The bonds bear interest at five percent (5%) payable January 2 and July 2 of each year; such bonds may be called for redemption prior to maturity upon payment of 105 percent of par plus accrued interest. The bonds are secured by the unpaid assessments made for the payment of improvements in the assessment district. Maturity of the bonds (on July 2) is:

| | <u>Principal</u> |
|---------|-------------------|
| 2007 | \$ 20,000 |
| 2008-09 | 50,000 |
| 2009-13 | 135,000 |
| 2014-18 | 165,000 |
| 2019-22 | <u>145,000</u> |
| | <u>\$ 515,000</u> |

6. Long-term Debt:

On October 1, 2003, the District issued Certificates of Participation – 2003 Series QQ (COP’s) for \$3,195,000 to the CSDA Finance Corporation. Proceeds from these Certificates were used 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 ¼%. The District maintains a reserve fund with a Trustee equal to the maximum annual installment payable in a Certificate year. Interest is payable on May 1 and November 1 of each year.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

6. Long-term Debt, continued:

Principal on the Certificates is payable annually on November 1 through 2028 as follows:

| <u>Payment Date</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|--------------------|--------------------|--------------------|
| 11/1/06 | \$ 100,000 | \$ 67,594 | \$ 167,594 |
| 5/1/07 | - | 67,594 | 67,594 |
| 11/1/07 | 100,000 | 66,819 | 166,819 |
| 5/1/08 | - | 66,819 | 66,819 |
| 11/1/08 | 100,000 | 65,769 | 165,769 |
| 5/1/09 | - | 65,769 | 65,769 |
| 11/1/09 | 100,000 | 64,544 | 164,544 |
| 5/1/10 | - | 64,544 | 64,544 |
| 11/1/10 | 100,000 | 63,169 | 163,169 |
| 5/1/11 | - | 63,169 | 63,169 |
| Thereafter | <u>2,495,000</u> | <u>1,375,656</u> | <u>3,870,656</u> |
| | <u>\$2,995,000</u> | <u>\$2,031,446</u> | <u>\$5,026,446</u> |

7. PERS Pension Plan:

Effective on October 16, 2002, the District is participating in the California Public Employee's Retirement System. The District contributes 14.105% of qualified earnings; employees contribute 8% of qualified earnings. As of March 1, 2006, the District now pays the employee portion. The District opted not to credit prior service. The District adopted the 3% at age 60 modified formula. At June 30, 2006 the District contributed \$48,834 for the benefit of its employees.

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.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

9. Water System Assessment District No. 2:

On February 28, 1996 the District adopted a resolution authorizing the issuance of improvement bonds pursuant to the Improvement Bond Act of 1915. The proceeds of such bonds was used to finance the construction of public improvements under the Municipal Improvement Act of 1913.

The improvements consisted of two phases - Phase 1 Pipeline Relocation Project and Phase 2 Water System Rehabilitation Project.

The Improvement Bonds were financed by the U.S. Department of Agriculture, Rural Development.

On July 23, 1997 the District issued an improvement bond (Series 1997) for \$1,364,150 to United States of America, Rural Development, United States Department of Agriculture. The bond bears interest at 4.875% per annum, payable on March 2 and September 2 and matures as follows:

| <u>Date</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------|--------------------|--------------------|
| 9-2-06 | \$ 18,000 | \$ 30,398 |
| 3-2-07 | - | 29,959 |
| 9-2-07 | 18,900 | 29,959 |
| 3-2-08 | - | 29,499 |
| 9-2-08 | 19,800 | 29,499 |
| 3-2-09 | - | 29,016 |
| 9-2-09 | 20,800 | 29,016 |
| 3-2-10 | - | 28,509 |
| 9-2-10 | 21,800 | 28,509 |
| 3-2-11 | - | 27,978 |
| 9-2-11 through 9-2-36 | <u>1,147,800</u> | <u>905,089</u> |
| | <u>\$1,247,100</u> | <u>\$1,197,431</u> |

**FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued**

9. Water System Assessment District No. 2 (continued):

On June 2, 1998 the District issued an improvement bond (Series 1998) for \$2,031,318 to United States of America, Rural Development, United States Department of Agriculture. The bond bears interest at 4.75% per annum, payable on March 2 and September 2 and matures as follows:

| <u>Date</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------|--------------------|---------------------|
| 9-2-06 | \$ 26,100 | \$ 44,617 |
| 3-2-07 | - | 43,997 |
| 9-2-07 | 27,400 | 43,997 |
| 3-2-08 | - | 43,346 |
| 9-2-08 | 28,700 | 43,346 |
| 3-2-09 | - | 42,665 |
| 9-2-09 | 30,000 | 42,665 |
| 3-2-10 | - | 41,952 |
| 9-2-10 | 31,500 | 41,952 |
| 3-2-11 | - | 41,204 |
| 9-2-11 through 9-2-37 | <u>1,734,900</u> | <u>1,338,563</u> |
| | <u>\$1,878,600</u> | <u>\$ 1,768,304</u> |

10. 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 2006 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

11. Restricted Net Assets:

Reserves at June 30, 2006 consist of:

| | |
|-----------------------------------|-------------------|
| Capital improvement reserve | \$ 495,355 |
| Sugar Pine surcharge reserve | 55,047 |
| Future filtration benefit reserve | 112,736 |
| Sugar Pine Reserve | <u>269,379</u> |
| | <u>\$ 932,517</u> |

12. Capital Leases:

In 2005 the District entered into two capital lease agreements to finance the purchase of a dump truck and a utility bed truck. 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 trucks subject to the capital lease is \$98,542.

Minimum future lease payments under capital leases as of June 30, 2006 are:

| | |
|---|-----------------|
| 2007 | \$27,889 |
| 2008 | 22,990 |
| 2009 | <u>18,375</u> |
| Total payments | 69,254 |
| Less, amount representing interest | <u>5,851</u> |
| Present value of net minimum lease payments | <u>\$63,403</u> |

SUPPLEMENTAL DATA

**ROBERT
W.
JOHNSON**

**An Accountancy Corporation
Certified Public Accountant**

6234 BIRDCAGE STREET • CITRUS HEIGHTS, CA 95610-5949 • (916) 723-2555

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING 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 the financial statements of Foresthill Public Utility District as of and for the year ended June 30, 2006, and have issued our report thereon dated August 16, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control

over financial reporting that we have reported to management of the District in a separate letter dated August 16, 2006.

This report is intended for the information of the audit committee, management and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Robert W. Johnson, An Accountancy Corporation

Robert W. Johnson, An Accountancy Corporation
August 16, 2006

**FORESTHILL PUBLIC UTILITY DISTRICT
PRINCIPAL OFFICIALS**

Board of Directors

| | |
|---------------------|----------------|
| Brett C. Grant | President |
| George S. Shaw | Vice President |
| Gregory Wells | Treasurer |
| Duane Frink | Director |
| William Sadler, Jr. | Director |

Operations

| | |
|--------------------|-------------------------------|
| Kurt W. Reed | Manager Ex. Officio Secretary |
| Patricia L. Pappas | Business Manager |

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS – BUDGET AND ACTUAL
for the year ended June 30, 2006

| | <u>Budget</u> | <u>Actual</u> | Favorable (Unfavorable) <u>Variance</u> |
|-------------------------------------|------------------|-------------------|---|
| Operating revenues: | | | |
| Sales - residential | \$ 660,000 | \$ 644,933 | \$(15,067) |
| - business | 194,000 | 194,780 | 780 |
| - industrial | 300 | 285 | (15) |
| Other | <u>249,050</u> | <u>417,170</u> | <u>168,120</u> |
| Total operating revenues | <u>1,103,350</u> | <u>1,257,168</u> | <u>153,818</u> |
| Operating expenses: | | | |
| Source of supply | 52,250 | 79,545 | (27,295) |
| Pumping | 7,250 | 6,985 | 265 |
| Water treatment | 111,600 | 120,343 | (8,743) |
| Transmission and distribution | 146,150 | 124,369 | 21,781 |
| Customer accounts | 16,200 | 19,586 | (3,386) |
| Administrative and general | 681,168 | 467,564 | 213,604 |
| Depreciation | <u>105,147</u> | <u>323,454</u> | <u>(218,307)</u> |
| Total operating expenses | <u>1,119,765</u> | <u>1,141,846</u> | <u>(22,081)</u> |
| Operating income (loss) | <u>(16,415)</u> | <u>115,322</u> | <u>131,737</u> |
| Non-operating income and (expense): | | | |
| Interest income | 415 | 47,326 | 46,911 |
| Property taxes | 16,000 | 24,631 | 8,631 |
| Interest expense | - | (142,079) | (142,079) |
| Assistance - Assessment District #2 | <u>-</u> | <u>(100,000)</u> | <u>(100,000)</u> |
| | <u>16,415</u> | <u>(170,122)</u> | <u>(186,537)</u> |
| Income before contributions | - | (54,800) | (54,800) |
| Capital contributions | <u>-</u> | <u>473,057</u> | <u>473,057</u> |
| Change in net assets | <u>\$ -</u> | <u>\$ 418,257</u> | <u>\$ 418,257</u> |

**FORESTHILL PUBLIC UTILITY DISTRICT
OPERATING EXPENSES**

for the year ended June 30, 2006

Source of Supply:

| | | |
|-----------------------------|---------------|------------------|
| Restoration payments | \$ 15,138 | |
| Supervision and labor | 4,348 | |
| Maintenance | 29,824 | |
| Vehicle expense | 593 | |
| Power | 2,781 | |
| Inspection and water rights | <u>26,861</u> | |
| | | \$ <u>79,545</u> |

Pumping:

| | | |
|-----------------|-----------|--------------|
| Power | 6,500 | |
| Vehicle expense | 440 | |
| Maintenance | <u>45</u> | |
| | | <u>6,985</u> |

Water treatment:

| | | |
|-----------------------|---------------|----------------|
| Supervision and labor | 68,871 | |
| Maintenance | 24,487 | |
| Chemical and analysis | 12,780 | |
| Vehicle expense | 3,402 | |
| Power | <u>10,803</u> | |
| | | <u>120,343</u> |

Transmission and Distribution:

| | | |
|-----------------------|---------------|----------------|
| Supervision and labor | 118,763 | |
| Maintenance | (6,723) | |
| Vehicle expense | <u>12,329</u> | |
| | | <u>124,369</u> |

Customer Accounts:

| | | |
|-----------------------|--------------|---------------|
| Supervision and labor | 18,406 | |
| Maintenance | - | |
| Vehicle expense | <u>1,180</u> | |
| | | <u>19,586</u> |

FORESTHILL PUBLIC UTILITY DISTRICT
OPERATING EXPENSES, continued
for the year ended June 30, 2006

Administrative and General:

| | | |
|-------------------------------------|--------------|-------------------|
| Salaries | \$ 172,663 | |
| Legal services | 13,488 | |
| Collection charges | 1,293 | |
| Accounting | 4,500 | |
| Vehicle Expense | 1,024 | |
| Liability insurance | 26,634 | |
| Office expense | 22,481 | |
| Employee benefits and payroll taxes | 191,716 | |
| Seminars and travel | 4,474 | |
| Utilities | 3,556 | |
| Engineering services | 1,388 | |
| Maintenance | 1,892 | |
| Dues and subscriptions | 7,374 | |
| Computer services | 5,802 | |
| Uniforms | 3,933 | |
| Public information program | - | |
| Educational expense | 2,346 | |
| Board remuneration | <u>3,000</u> | <u>\$ 467,564</u> |

Depreciation 323,454

Total operating expenses \$1,141,846