

**FORESTHILL
PUBLIC UTILITY DISTRICT**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
for the year ended June 30, 2009**

ROBERT W. JOHNSON
Certified Public Accountant

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ROBERT

W.

JOHNSON

An Accountancy Corporation

Certified Public Accountant

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

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 as of and for the year ended June 30, 2009, 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 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 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, 2009 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 September 23, 2009, 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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. Management has elected to omit the Management's Discussion and Analysis.

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 Accounting Corporation

Citrus Heights, California
September 23, 2009

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF NET ASSETS
June 30, 2009
(with comparative totals for fiscal year ended June 30, 2008)

ASSETS

	Enterprise Fund	Improvement Bond Fund	Assessment District No. 2	Totals (Memorandum only)	
				2009	2008
Current assets:					
Cash in checking	\$ 26,168	\$	\$	\$ 26,168	\$ 22,420
Temporary investments	295,262			295,262	491,384
Accounts receivable	155,728			155,728	134,071
Prepaid expenses	33,103			33,103	-
Inventory - materials and supplies	<u>14,377</u>			<u>14,377</u>	<u>16,932</u>
Total current assets	<u>524,638</u>			<u>524,638</u>	<u>664,807</u>
Capital assets, at cost (Note 4)	12,541,304			12,541,304	12,402,744
Less, accumulated depreciation	<u>(4,703,934)</u>			<u>(4,703,934)</u>	<u>(4,368,664)</u>
	7,837,370			7,837,370	8,034,080
Construction in progress	<u>-</u>			<u>-</u>	<u>-</u>
	<u>7,837,370</u>			<u>7,837,370</u>	<u>8,034,080</u>
Debt issuance costs, net	<u>152,500</u>			<u>152,500</u>	<u>160,320</u>
Restricted assets:					
Temporary investment – reserves	241,745			241,745	346,192
Certif. of Partic. – reserve fund	<u>263,036</u>			<u>263,036</u>	<u>268,944</u>
	<u>504,781</u>			<u>504,781</u>	<u>615,136</u>
Improvement Bond Fund:					
Future assessments receivable		468,204		468,204	458,320
Temporary investments		134,479		134,479	175,918
Assessment District No. 2:					
Temporary investments			482,780	482,780	468,320
Future assessments receivable			<u>2,399,320</u>	<u>2,399,320</u>	<u>2,404,516</u>
	<u>\$ 9,019,289</u>	<u>\$ 602,683</u>	<u>\$ 2,882,100</u>	<u>\$12,504,072</u>	<u>\$12,981,417</u>

See notes to financial statements

LIABILITIES AND NET ASSETS

	<u>Enterprise Fund</u>	<u>Improvement Bond Fund</u>	<u>Assessment District No. 2</u>	Totals (Memorandum only)	
				<u>2009</u>	<u>2008</u>
Current liabilities:					
Current portion of long-term debt (Note 6)	\$ 100,000	\$	\$	\$ 100,000	\$ 100,000
Current portion of capital lease (Note 12)	27,802			27,802	34,286
Accounts payable	18,380			18,380	4,695
Compensated absences payable	43,008			43,008	26,013
Customer deposits	<u>27,563</u>			<u>27,563</u>	<u>26,538</u>
Total current liabilities	<u>216,753</u>			<u>216,753</u>	<u>191,532</u>
Long-term debt, net of current portion (Note 6)					
Add, bond premium, net of amortization	2,595,000			2,595,000	2,695,000
	<u>23,477</u>			<u>23,477</u>	<u>25,810</u>
	2,618,477			2,618,477	2,720,810
Capital lease (Note 12)	<u>24,567</u>			<u>24,567</u>	<u>12,382</u>
	<u>2,643,044</u>			<u>2,643,044</u>	<u>2,733,192</u>
Net assets (Note 11):					
Invested in capital assets, net of related debt	5,090,001			5,090,001	5,192,412
Restricted	397,732			397,732	583,761
Unrestricted	<u>671,759</u>			<u>671,759</u>	<u>773,446</u>
	<u>6,159,492</u>			<u>6,159,492</u>	<u>6,549,619</u>
Improvement Bond Fund:					
Bonds payable (Note 5)		445,000		445,000	470,000
Fund equity		157,683		157,683	164,238
Assessment District No. 2:					
Bonds payable (Note 9)			2,986,800	2,986,800	3,035,300
Fund deficit			<u>(104,700)</u>	<u>(104,700)</u>	<u>(162,464)</u>
	<u>\$9,019,289</u>	<u>\$ 602,683</u>	<u>\$2,882,100</u>	<u>\$12,504,072</u>	<u>\$12,981,417</u>

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the year ended June 30, 2009
(with comparative totals for fiscal year ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Sales - residential	\$ 959,355	\$ 839,750
- business	135,619	183,646
- industrial	325	300
Service connections	6,205	22,982
Will serve	24,035	85,171
Sugar Pine surcharge	176,455	176,719
Other	<u>120,419</u>	<u>56,326</u>
Total operating revenues	<u>1,422,413</u>	<u>1,364,894</u>
Operating expenses:		
Source of supply	73,077	70,315
Pumping	10,120	16,784
Water treatment	174,397	164,344
Transmission and distribution	248,035	229,887
Customer accounts	20,884	13,151
Administrative and general	797,755	640,155
Depreciation	<u>371,184</u>	<u>360,709</u>
Total operating expenses	<u>1,695,452</u>	<u>1,495,345</u>
Operating income (loss)	<u>(273,039)</u>	<u>(130,451)</u>
Non-operating income and (expense):		
Interest income	40,744	48,402
Property taxes	78,625	82,697
Interest expense	(140,966)	(141,490)
Assistance - Assessment District #2	(100,001)	(100,000)
Gain on sale/(loss on disposal)	<u>4,510</u>	<u>(794)</u>
	<u>(117,088)</u>	<u>(111,185)</u>
Loss before contributions	(390,127)	(241,636)
Capital contributions	<u>-</u>	<u>-</u>
Changes in net assets (carried forward)	(390,127)	(241,636)

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, 2009
(with comparative totals for fiscal year ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Change in net assets (brought forward)	\$(390,127)	\$(241,636)
Total net assets:		
Beginning	<u>6,549,619</u>	<u>6,791,255</u>
Ending	<u>\$6,159,492</u>	<u>\$6,549,619</u>

See notes to financial statements

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
for the year ended June 30, 2009
(with comparative totals for fiscal year ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from customers	\$1,400,756	\$1,349,873
Payments to suppliers	(756,274)	(620,985)
Payments to employees	(555,441)	(504,538)
Net cash provided by operating activities	<u>89,041</u>	<u>224,350</u>
 Cash flows from noncapital financing activities:		
Receipts from property taxes and other nonoperating income	<u>83,135</u>	<u>82,697</u>
 Cash flows from capital and related financing activities:		
Capital contributions	-	-
Purchase of capital assets	(174,475)	(194,514)
Interest paid on capital debt	(140,966)	(141,490)
Assistance to Assessment Dist. No. 2	(100,001)	(100,000)
Proceeds from capital leases	50,545	-
Principal payments on long-term debt	(144,844)	(136,968)
	<u>(509,741)</u>	<u>(572,972)</u>
 Cash flows from investing activities:		
Interest income	<u>40,744</u>	<u>48,402</u>
 Net increase (decrease) in cash and cash equivalents	(296,821)	(217,523)
 Cash and cash equivalents:		
Beginning of year	<u>859,996</u>	<u>1,077,519</u>
End of year	<u>\$ 563,175</u>	<u>\$ 859,996</u>

See notes to financial statements

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS, continued
for the year ended June 30, 2009
(with comparative totals for fiscal year ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(<u>273,039</u>)	\$(<u>130,451</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	371,184	360,709
Changes in operating assets and liabilities:		
Receivables	(21,657)	(15,021)
Prepaid expense	(33,103)	-
Inventory	2,555	17,052
Cert. of Partic. – reserve fund	5,908	1,183
Accounts payable	13,685	(1,629)
Customer deposits	1,025	(1,625)
Compensated absences	<u>16,995</u>	<u>(11,356)</u>
	<u>362,080</u>	<u>354,801</u>
Net cash provided by operating activities	\$ <u>89,041</u>	\$ <u>224,350</u>
Supplementary information:		
Cash paid for interest	\$ <u>135,478</u>	\$ <u>133,670</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 basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

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.

Operating revenues and expenses, such as water sales along with water expenses, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses, such as grant funding, investment income and interest expense, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

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.

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

Capital assets are 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.

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

2. Summary of Significant Accounting Policies, continued:

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 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 60.

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.

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.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

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, 2009:

Unrestricted	\$ 321,430
Restricted	<u>241,745</u>
Total cash and investments	<u>\$ 563,175</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 \$26,168 and the bank balance was \$61,014. All of the bank balance was covered by Federal depository insurance.

	<u>Balance, June 30, 2009</u>
Checking	\$ 25,893
Other deposits	25
Cash on hand	<u>250</u>
Total deposits	<u>\$ 26,168</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, 2009, Local Agency Investment Fund	\$ <u>537,007</u>	\$ <u>537,007</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, 2009, the District had set aside the following in investments for special purposes:

	<u>Balance, June 30, 2009</u>
Capital reserve	\$ 166,194
Repair & replacement reserve	<u>75,551</u>
	<u>\$ 241,745</u>

4. Capital Assets:

Changes in capital assets for the year ended June 30, 2009 are as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Land	\$ 36,568	\$ -	\$ -	\$ 36,568
Source of supply	2,630,510	-	-	2,630,510
Pumping plant	20,962	-	-	20,962
Water treatment	1,181,172	-	-	1,181,172
Transmission and Distribution	7,834,157	123,929	-	7,958,086
General plant	<u>699,375</u>	<u>50,545</u>	<u>35,914</u>	<u>714,006</u>
	<u>\$12,402,744</u>	<u>\$ 174,474</u>	<u>\$ 35,914</u>	<u>\$12,541,304</u>

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

5. Bond Issue:

Long-term debt activity for the year ended June 30, 2009 for the bond issue is as follows:

	<u>Balance</u> <u>7/1/2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/2009</u>	<u>Current</u> <u>Portion</u>
Bond issue	\$ <u>470,000</u>	\$ <u>-</u>	\$ <u>25,000</u>	\$ <u>445,000</u>	\$ <u>25,000</u>

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.

The future annual maturities of long-term borrowings for the bond issue as of June 30, 2009 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 25,000	\$ 22,250	\$ 47,250
2011	25,000	21,000	46,000
2012	30,000	19,750	49,750
2013	30,000	18,250	48,250
2014	30,000	16,750	46,750
2015-2019	175,000	59,750	234,750
2020-2022	<u>130,000</u>	<u>13,250</u>	<u>143,250</u>
	<u>\$ 445,000</u>	<u>\$ 171,000</u>	<u>\$ 616,000</u>

6. Long-term Debt:

Long-term debt activity for the year ended June 30, 2009 is as follows:

	<u>Balance</u> <u>7/1/2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/2009</u>	<u>Current</u> <u>Portion</u>
2003 Certificates of Participation	\$ <u>2,795,000</u>	\$ <u>-</u>	\$ <u>100,000</u>	\$ <u>2,695,000</u>	\$ <u>100,000</u>

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

6. Long-term Debt, continued:

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.

The future annual maturities of long-term borrowings as of June 30, 2009 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 100,000	\$ 129,088	\$ 229,088
2011	100,000	126,338	226,338
2012	100,000	123,238	223,238
2013	100,000	119,638	219,638
2014	100,000	116,213	216,213
2015-2019	555,000	509,815	1,064,815
2020-2024	715,000	355,815	1,070,815
2025-2029	<u>925,000</u>	<u>150,937</u>	<u>1,075,937</u>
	<u>\$2,695,000</u>	<u>\$1,631,082</u>	<u>\$4,326,082</u>

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

7. Retirement Plan:

The District's policy is to fund retirement benefits with the State of California Public Employees' Retirement System (CALPERS). The amount of pension contributions by the District to CALPERS is actuarially determined under a program wherein contributions plus earnings of the retirement system are to provide the necessary funds to pay retirement benefits when due. The District relies on the competency of the State in determining the funding method, the adequacy of funding, and the spreading of actuarial gains and losses which is currently on a four-year basis.

A. Plan Description

Foresthill Public Utility District contributes to the California Public Employees Retirement System (CALPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CALPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Foresthill Public Utility District. The financial report may be obtained by writing to CALPERS Actuarial Office, P.O. Box 942709, Sacramento, CA 94229-2709.

B. Summary of Significant Accounting Policies

Basis of Accounting: The financial statements of the plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The District's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period, July 1, 2009 to June 30, 2010, has been determined by an actuarial valuation of the plan as of June 30, 2007.

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

7. Retirement Plan, continued:

District employees' contribution is 8.0 percent of their annual salary to the System. The District pays the employees' contribution. The District is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS Actuaries and Actuarial Consultants and adopted by the Board of Administration. For year ended June 30, 2009 the District paid total contributions of \$105,097, including employees' portion.

Pooled Report Format

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

A summary of principal assumptions and methods used to determine the annual required contribution is shown below:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	16 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

Initial plan unfunded liabilities are amortized over a closed period equal to the average amortization period at the plan's date of entry into the CalPERS Risk Pool. Subsequent plan amendments are amortized over a closed 20-year period. Gains and losses that occur in the operation of the risk pool are amortized over a rolling 30 year period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period. More complete information on assumptions and methods is provided in Appendix A of Section 2 of the report. Appendix B of Section 2 of the report contains a description of benefits included in the Risk Pool Actuarial Valuation.

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

7. Retirement Plan, continued:

The Schedule of Funding Progress below shows the recent history of the Risk Pool's actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability (UL) to payroll.

Risk Pool's History of Funded Status and Funding Progress

<u>Valuation Date</u>	<u>Accrued Liabilities</u>	<u>Actuarial Assets</u>	<u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL As a % of Payroll</u>
June 30, 2005	\$499,323,280	\$405,480,805	\$ 93,842,475	81.2%	\$108,618,321	86.4%
June 30, 2006	\$620,492,183	\$501,707,110	\$118,785,073	80.9%	\$126,049,770	94.2%
June 30, 2007	\$699,663,524	\$576,069,687	\$123,593,837	82.3%	\$139,334,562	88.7%

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.

9. Water System Assessment District No. 2:

Long-term debt activities for the year ended June 30, 2009 for Assessment District No. 2 are as follows:

	<u>Balance 7/1/2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 6/30/2009</u>	<u>Current Portion</u>
Loan 91-02	\$1,210,200	\$ -	\$ 19,800	\$1,190,400	\$ 20,800
Loan 91-03	<u>1,825,100</u>	<u>-</u>	<u>28,700</u>	<u>1,796,400</u>	<u>30,000</u>
	<u>\$3,035,300</u>	<u>\$ -</u>	<u>\$ 48,500</u>	<u>\$2,986,800</u>	<u>\$ 50,800</u>

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

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

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.

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.

The future annual maturities of long-term borrowings for Assessment District No. 2 as of June 30, 2009 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 50,800	\$ 142,142	\$ 192,942
2011	53,300	139,643	192,943
2012	55,900	137,021	192,921
2013	58,500	134,275	192,775
2014	61,300	131,399	192,699
2015-2019	353,700	608,761	962,461
2020-2024	447,100	513,062	960,162
2025-2029	565,000	392,105	957,105
2030-2034	714,600	239,152	953,752
2035-2038	<u>626,600</u>	<u>56,287</u>	<u>682,887</u>
	<u>\$2,986,800</u>	<u>\$2,493,847</u>	<u>\$5,480,647</u>

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

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 2009 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

11. Net Assets:

Net assets at June 30, 2009 is analyzed as follows:

Investment in capital assets, net of related debt		\$5,090,001
Restricted:		
Capital improvement reserve	\$ 166,194	
Sugar Pine Reserve	<u>231,538</u>	
		397,732
Unrestricted:		
Designated by the Board:		
Repair and replacement reserve	75,551	
Undesignated	<u>596,208</u>	
		<u>671,759</u>
Total net assets		<u>\$6,159,492</u>

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

12. Capital Leases:

The District entered into capital lease agreements to finance the purchase of a District vehicle. 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 leases is \$100,427.

Minimum future lease payments under capital leases as of June 30, 2009 are:

2010		\$ 29,465
2011		17,886
2012		<u>7,453</u>
Total payments		54,804
Less, amount representing interest		<u>2,435</u>
Present value of net minimum lease payments		<u>\$ 52,369</u>

13. Governmental Accounting Standards Board Statements Issued, Not Yet Effective:

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2009, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 45:

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is expected to have a significant impact on the presentation of the District's financial statements in future years.

SUPPLEMENTAL DATA

**FORESTHILL PUBLIC UTILITY DISTRICT
PRINCIPAL OFFICIALS**

Board of Directors

Duane L. Frink	President
William L. Sadler, Jr.	Vice President
Brett C. Grant	Treasurer
Adam W. Larsen	Director
George S. Shaw	Director

Operations

Kurt W. Reed	Manager Ex. Officio Secretary
Jo Ann Glover	Business Manager

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS – BUDGET AND ACTUAL
for the year ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Operating revenues:			
Sales - residential	\$ 960,795	\$ 959,355	\$(1,440)
- business	245,622	135,619	(110,003)
- industrial	360	325	(35)
Other	<u>235,200</u>	<u>327,114</u>	<u>91,914</u>
Total operating revenues	<u>1,441,977</u>	<u>1,422,413</u>	<u>(19,564)</u>
Operating expenses:			
Source of supply	81,000	73,077	7,923
Pumping	8,900	10,120	(1,220)
Water treatment	166,500	174,397	(7,897)
Transmission and distribution	231,150	248,035	(16,885)
Customer accounts	15,550	20,884	(5,334)
Administrative and general	679,475	797,755	(118,280)
Depreciation	<u>93,319</u>	<u>371,184</u>	<u>(277,865)</u>
Total operating expenses	<u>1,275,894</u>	<u>1,695,452</u>	<u>(419,558)</u>
Operating income (loss)	<u>166,083</u>	<u>(273,039)</u>	<u>(439,122)</u>
Non-operating income and (expense):			
Interest income	950	40,744	39,794
Property taxes	63,280	78,625	15,345
Interest expense	(230,313)	(140,966)	89,347
Assistance - Assessment District #2	-	(100,001)	(100,001)
Other	<u>-</u>	<u>4,510</u>	<u>4,510</u>
	<u>(166,083)</u>	<u>(117,088)</u>	<u>48,995</u>
Income before contributions	-	(390,127)	(390,127)
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ -</u>	<u>\$(390,127)</u>	<u>\$(390,127)</u>

FORESTHILL PUBLIC UTILITY DISTRICT
OPERATING EXPENSES
for the year ended June 30, 2009

Source of Supply:		
Restoration payments	\$ 24,650	
Supervision and labor	11,140	
Maintenance	1,005	
Vehicle expense	397	
Power	3,612	
Inspection and water rights	<u>32,273</u>	
		<u>\$ 73,077</u>
 Pumping:		
Power	7,862	
Vehicle expense	220	
Maintenance	24	
Propane	1,600	
Supervision and labor	<u>414</u>	
		<u>10,120</u>
 Water treatment:		
Supervision and labor	109,407	
Maintenance	16,829	
Chemical and analysis	35,665	
Vehicle expense	3,122	
Power	6,832	
Propane	<u>2,542</u>	
		<u>174,397</u>
 Transmission and Distribution:		
Supervision and labor	180,898	
Maintenance	55,651	
Vehicle expense	11,245	
Propane	<u>241</u>	
		<u>248,035</u>
 Customer Accounts:		
Supervision and labor	19,220	
Maintenance	12	
Vehicle expense	<u>1,652</u>	
		<u>20,884</u>

FORESTHILL PUBLIC UTILITY DISTRICT
OPERATING EXPENSES, continued
for the year ended June 30, 2009

Administrative and General:

Salaries	\$ 234,362	
Legal services	45,287	
Engineering services	40,926	
Collection charges	4,638	
Accounting	7,700	
Vehicle Expense	1,218	
Liability insurance	34,716	
Office expense	45,210	
Employee benefits and payroll taxes	324,336	
Seminars and travel	6,055	
Utilities	3,318	
Consulting services	1,000	
Maintenance	2,171	
Dues and subscriptions	10,124	
Computer services	11,447	
Uniforms	4,716	
Public information program	5,372	
Educational expense	2,173	
Election expense	5,036	
Board remuneration	<u>7,950</u>	<u>\$ 797,755</u>

Depreciation 371,184

Total operating expenses \$1,695,452

**REPORT ON INTERNAL CONTROLS
AND COMPLIANCE**

**ROBERT
W.
JOHNSON**

An Accountancy Corporation
Certified Public Accountant

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

**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 the financial statements of Foresthill Public Utility District as of and for the year ended June 30, 2009, and have issued our report thereon dated September 23, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Foresthill Public Utility District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over

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

financial reporting that we consider to be significant deficiencies in internal control over financial reporting. 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.

We consider the deficiency described in the accompanying schedule of findings and responses (2009-1) to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District, in a separate letter dated September 23, 2009.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response, and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors of Foresthill Public Utility District and its management, and is not intended to be and should not be used by anyone other than these specified parties.

Robert W. Johnson, A Accountancy Corporation

Citrus Heights, California
September 23, 2009

FORESTHILL PUBLIC UTILITY DISTRICT
Schedule of Findings and Responses
As of June 30, 2009

Finding 2009-1:

Controls Over Financial Reporting Requirement: Significant Deficiency

Reliance upon Auditor for Financial Statement Preparation and Footnote Disclosures:

Condition: Management relies upon the auditor to determine the proper presentation of financial statements and related footnote disclosures.

Criteria: Statement of Auditing Standards No. 112, states that the auditor may not be of the District's internal control system; specifically someone from the District must be knowledgeable enough in generally accepted accounting principles to know if a misstatement has occurred in the financial statements including the notes to the financial statements.

Cause: The District does not have either an employee experienced in generally accepted accounting principles or an accounting firm engaged to prepare financial statements in conformity with generally accepted accounting principles.

Recommendation: The District should consider the cost benefit of hiring an accountant familiar with generally accepted accounting principles or hiring an independent CPA firm to compile financial statements in conformity with generally accepted accounting principles.

Management Response: Management holds the opinion that there may be a benefit to hiring an accountant to prepare financial statements in conformity with generally accepted accounting principles prior to the annual audit of the financial statements; however, budget/fiscal constraints may preclude implementation.