

**FORESTHILL
PUBLIC UTILITY DISTRICT**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
for the year ended June 30, 2010**

ROBERT W. JOHNSON
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 as of and for the year ended June 30, 2010, 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, 2010 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 October 20, 2010, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. 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

October 20, 2010

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF NET ASSETS
June 30, 2010
(with comparative totals for fiscal year ended June 30, 2009)

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 209,782	\$ 321,430
Accounts receivable	116,927	155,728
Prepaid expenses	-	33,103
Inventory - materials and supplies	<u>18,866</u>	<u>14,377</u>
Total current assets	<u>345,575</u>	<u>524,638</u>
Non-current assets:		
Capital assets, at cost (Notes 3 and 4)	12,541,304	12,541,304
Less, accumulated depreciation	<u>5,017,773</u>	<u>4,703,934</u>
	7,523,531	7,837,370
Construction in progress	<u>-</u>	<u>-</u>
	<u>7,523,531</u>	<u>7,837,370</u>
Debt issuance costs, net	<u>144,679</u>	<u>152,500</u>
Restricted cash and cash equivalents	<u>592,990</u>	<u>504,781</u>
Total non-current assets	<u>8,261,200</u>	<u>8,494,651</u>
Total assets	<u>\$ 8,606,775</u>	<u>\$ 9,019,289</u>

See notes to financial statements

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities:		
Current portion of long-term debt (Note 4)	\$ 100,000	\$ 100,000
Current portion of capital lease (Note 5)	17,191	27,802
Accounts payable	33,845	18,380
Compensated absences payable	48,046	43,008
Other post-employment benefits payable (Note 8)	75,888	-
Customer deposits	<u>29,938</u>	<u>27,563</u>
Total current liabilities	<u>304,908</u>	<u>216,753</u>
Non-current liabilities:		
Long-term debt, net of current portion (Note 4)	2,495,000	2,595,000
Add, bond premium, net of amortization	<u>21,144</u>	<u>23,477</u>
	2,516,144	2,618,477
Capital lease (Note 5)	<u>7,376</u>	<u>24,567</u>
Total non-current liabilities	<u>2,523,520</u>	<u>2,643,044</u>
Total liabilities	<u>2,828,428</u>	<u>2,859,797</u>
Net assets (Note 10):		
Invested in capital assets, net of related debt	4,911,340	5,090,001
Restricted	416,850	397,732
Unrestricted	<u>450,157</u>	<u>671,759</u>
Total net assets	<u>5,778,347</u>	<u>6,159,492</u>
Total liabilities and net assets	<u>\$ 8,606,775</u>	<u>\$ 9,019,289</u>

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the year ended June 30, 2010
(with comparative totals for fiscal year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Sales - residential	\$ 930,558	\$ 959,355
- business	121,935	135,619
- industrial	334	325
Service connections	10,603	6,205
Will serve	14,421	24,035
Sugar Pine surcharge	180,362	176,455
Other	<u>160,233</u>	<u>120,419</u>
Total operating revenues	<u>1,418,446</u>	<u>1,422,413</u>
Operating expenses:		
Source of supply	71,311	73,077
Pumping	8,796	10,120
Water treatment	163,680	174,397
Transmission and distribution	247,409	248,035
Customer accounts	8,487	20,884
Administrative and general	829,439	797,755
Depreciation	<u>313,839</u>	<u>371,184</u>
Total operating expenses	<u>1,642,961</u>	<u>1,695,452</u>
Operating income (loss)	<u>(224,515)</u>	<u>(273,039)</u>
Non-operating income and (expense):		
Interest income	4,229	40,744
Property taxes	73,809	78,625
Interest expense	(134,668)	(140,966)
Assistance - Assessment District #2	(100,000)	(100,001)
Gain on sale/(loss on disposal)	<u>-</u>	<u>4,510</u>
	<u>(156,630)</u>	<u>(117,088)</u>
Loss before contributions	(381,145)	(390,127)
Capital contributions	<u>-</u>	<u>-</u>
Changes in net assets (carried forward)	(381,145)	(390,127)

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, 2010
 (with comparative totals for fiscal year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Change in net assets (brought forward)	\$(381,145)	\$(390,127)
Total net assets:		
Beginning	<u>6,159,492</u>	<u>6,549,619</u>
Ending	<u>\$5,778,347</u>	<u>\$6,159,492</u>

See notes to financial statements

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
for the year ended June 30, 2010
(with comparative totals for fiscal year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from customers	\$1,457,247	\$1,400,756
Payments to suppliers	(652,453)	(762,182)
Payments to employees	<u>(543,801)</u>	<u>(555,441)</u>
Net cash provided by operating activities	<u>260,993</u>	<u>83,133</u>
Cash flows from noncapital financing activities:		
Receipts from property taxes and other nonoperating income	<u>73,809</u>	<u>83,135</u>
Cash flows from capital and related financing activities:		
Capital contributions	-	-
Purchase of capital assets	-	(174,475)
Interest paid on capital debt	(134,668)	(140,966)
Assistance to Assessment Dist. No. 2	(100,000)	(100,001)
Proceeds from capital leases	-	50,545
Principal payments on long-term debt	<u>(127,802)</u>	<u>(144,844)</u>
	<u>(362,470)</u>	<u>(509,741)</u>
Cash flows from investing activities:		
Interest income	<u>4,229</u>	<u>40,744</u>
Net increase (decrease) in cash and cash equivalents	(23,439)	(302,729)
Cash and cash equivalents:		
Beginning of year	<u>826,211</u>	<u>1,128,940</u>
End of year	<u>\$ 802,772</u>	<u>\$ 826,211</u>
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and cash equivalents	\$ 209,782	\$ 321,430
Restricted assets - cash and cash equivalents	<u>592,990</u>	<u>504,781</u>
Total cash and cash equivalents	<u>\$ 802,772</u>	<u>\$ 826,211</u>

See notes to financial statements

FORESTHILL PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS, continued
for the year ended June 30, 2010
(with comparative totals for fiscal year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(<u>224,515</u>)	\$(<u>273,039</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	313,839	371,184
Changes in operating assets and liabilities:		
Receivables	38,801	(21,657)
Prepaid expense	33,103	(33,103)
Inventory	(4,489)	2,555
OPEB payable	75,888	-
Accounts payable	15,465	13,685
Customer deposits	2,375	1,025
Compensated absences	<u>5,038</u>	<u>16,995</u>
	<u>485,508</u>	<u>356,172</u>
Net cash provided by operating activities	\$ <u>260,993</u>	\$ <u>83,133</u>
Supplementary information:		
Cash paid for interest	\$ <u>129,180</u>	\$ <u>135,478</u>

See notes to financial statements

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. Reporting Entity and Summary of Significant Accounting Policies:

The basic financial statements of the 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 for 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.

Reporting Entity

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 governed by a five member Board of Directors elected by the voters within the District.

The District has created the Foresthill Public Utilities District Assessment District No. 1 and the Foresthill Public Utilities District Assessment District No. 2 to provide assistance to the District in the issuance of debt. The Assessment Districts make annual assessments against property owners who benefit from the improvements.

The Assessment Districts are legally separate from the District. The financial activities of the Assessment Districts have not been aggregated and merged with those of the District in the accompanying financial statements, as they do not meet the criteria for inclusion as set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39.

The long term debt activities of the Assessment Districts is disclosed in supplemental information.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

1. Reporting Entity and Summary of Significant Accounting Policies, continued:

Basis of Presentation – Fund Accounting

The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represents the amount available for future operations.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Statement of Net Assets. Net assets are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District uses the accrual basis of accounting. 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. Water lines are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These lines are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized as part of the distribution system.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for water service. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

1. Reporting Entity and Summary of Significant Accounting Policies, continued:

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 assessed value as of September 1 of the preceding fiscal year. They become a lien on the first day of the year they are levied. Secured property tax is levied on September 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.

Inventories

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

Depreciation

Capital assets are recorded at historical cost. Assets acquired by contribution are recorded at estimated fair value on the date received.

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

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 restricted assets, along with all pooled deposits and investments in the Local Agency Investment Fund, which are available upon demand.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

1. Reporting Entity and Summary of Significant Accounting Policies, continued:

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.

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.

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.

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.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

1. Reporting Entity and Summary of Significant Accounting Policies, continued:

Implementation of New Governmental Accounting Standards Board (GASB) Statements

Governmental Accounting Standards Board Statement No. 45

In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB Statement No. 45). This Statement established standards for the measurement, recognition, and display of Other Post Employment Benefits (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. The District adopted GASB Statement No. 45 in fiscal year ended June 30, 2010.

Reclassifications

Bond fund transactions have been reclassified as supplemental data in 2010.

2. Cash and Investments:

Cash and investments at June 30, 2010 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 209,782
Restricted cash and cash equivalents	<u>592,990</u>
Total cash and investments	<u>\$ 802,772</u>

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Cash and Investments, continued:

Cash and investments at fair value at June 30, 2010 consist of the following:

Cash on hand	\$ 250
Deposits with financial institutions	<u>10,761</u>
Total cash and deposits	<u>11,011</u>
Investments in Local Agency Investment Fund (LAIF) Restricted with Fiscal Agent	529,950
	<u>261,811</u>
Total investments	<u>791,761</u>
Total cash and investments	\$ <u>802,772</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).

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.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Cash and Investments, continued:

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, 2010, the District had no individual investment that exceeded 5% of its total investments.

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, 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. For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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 total 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, 2010, the carrying amount of the District's deposits was \$11,011 and the balance in financial institutions was \$113,886. All of the balance in financial institutions was covered by federal depository insurance.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

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 improvements. At June 30, 2010, the District had set aside the following for special purposes:

		Balance, June 30, <u>2010</u>
155,038	Capital reserve (Board designated)	\$
	Repair & replacement reserve (Board designated)	176,141
	2003 Certificates of Participation Reserve Fund	<u>261,811</u>
		<u>\$ 592,990</u>

3. Capital Assets:

Changes in capital assets for the year ended June 30, 2010 are as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</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	7,958,086	-	-	7,958,086
General plant	<u>714,006</u>	<u>-</u>	<u>-</u>	<u>714,006</u>
	<u>\$12,541,304</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,541,304</u>

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

4. Long-term Debt:

Long-term debt activity for the year ended June 30, 2010 is as follows:

	<u>Balance</u> <u>7/1/2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/2010</u>	<u>Current</u> <u>Portion</u>
2003 Certificates of Participation	<u>\$2,695,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$2,595,000</u>	<u>\$ 100,000</u>

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, 2010 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	100,000	112,463	212,463
2016-2020	585,000	482,065	1,067,065
2021-2025	750,000	319,665	1,069,665
2026-2029	<u>760,000</u>	<u>102,374</u>	<u>862,374</u>
	<u>\$2,595,000</u>	<u>\$1,501,994</u>	<u>\$4,096,994</u>

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

5. 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, 2010 are:

2011	\$ 17,886
2012	<u>7,453</u>
Total payments	25,339
Less, amount representing interest	<u>772</u>
Present value of net minimum lease payments	<u>\$ 24,567</u>

6. 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.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

6. Retirement Plan, continued:

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.

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.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

6. Retirement Plan, continued:

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

6. 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%

7. 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

8. 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, employee must retire with the District at age 60 or older or must be permanently disabled. At June 30, 2010, the District had five retirees that received benefits at a cost of approximately \$28,323.

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:

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution	\$ 75,888
Interest on net OPEB obligation	-
Adjustment of annual required contribution	-
Annual OPEB cost	<u>75,888</u>
Contributions made	-
Change in net OPEB obligation	75,888
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$ 75,888</u>

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

8. 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), and the Net OPEB Obligation for June 30, 2010 is as follows:

<u>Date of Valuation</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
1-1-08	\$ 75,888	\$ -	0.00%	\$ 75,888

In future years, three year trend information will be presented. June 30, 2010 was the first year of implementation of GASB Statement 45, and the District elected to implement prospectively; therefore prior year comparative data is not available.

Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of January 1, 2008 the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$613,762
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$613,762</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll	\$434,784
UAAL as percentage of covered payroll	141.16%

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

8. Other Post-Employment Benefits (OPEB), continued:

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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

In the January 1, 2008 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5% 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 10% in 2008 to 5.5% in 2016) 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, 2010 was 30 years.

9. 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 2010 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

10. Net Assets:

Net assets at June 30, 2010 is analyzed as follows:

Investment in capital assets, net of related debt		\$4,911,340
Restricted:		
Capital improvement reserve	\$ 155,038	
Sugar Pine Reserve	<u>261,812</u>	
		416,850
Unrestricted:		
Designated by the Board:		
Repair and replacement reserve	176,141	
Undesignated	<u>274,016</u>	
		<u>450,157</u>
Total net assets		<u>\$5,778,347</u>

11. Subsequent Events:

Management has evaluated subsequent events through October 20, 2010, the date these June 30, 2010 financial statements were available to be issued.

FORESTHILL PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

12. Proposition 1A Borrowing by the State of California:

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$3,204.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements.

SUPPLEMENTAL DATA

FORESTHILL PUBLIC UTILITY DISTRICT
PRINCIPAL OFFICIALS

Board of Directors

Brett C. Grant	President
George S. Shaw	Vice President
Adam W. Larsen	Treasurer
Duane L. Frink	Director
Stevan Graham	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, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Operating revenues:			
Sales - residential	\$ 965,000	\$ 930,558	\$(34,442)
- business	184,000	121,935	(62,065)
- industrial	325	334	9
Other	<u>228,950</u>	<u>365,619</u>	<u>136,669</u>
Total operating revenues	<u>1,378,275</u>	<u>1,418,446</u>	<u>40,171</u>
Operating expenses:			
Source of supply	72,700	71,311	1,389
Pumping	9,350	8,796	554
Water treatment	169,450	163,680	5,770
Transmission and distribution	218,400	247,409	(29,009)
Customer accounts	15,700	8,487	7,213
Administrative and general	738,904	829,439	(90,535)
Depreciation	<u>4,543</u>	<u>313,839</u>	<u>(309,296)</u>
Total operating expenses	<u>1,229,047</u>	<u>1,642,961</u>	<u>(413,914)</u>
Operating income (loss)	<u>149,228</u>	<u>(224,515)</u>	<u>(373,743)</u>
Non-operating income and (expense):			
Interest income	750	4,229	3,479
Property taxes	76,360	73,809	(2,551)
Interest expense	(226,338)	(134,668)	91,670
Assistance - Assessment District #2	-	(100,000)	(100,000)
Other	-	-	-
	<u>(149,228)</u>	<u>(156,630)</u>	<u>(7,402)</u>
Income before contributions	-	(381,145)	(381,145)
Capital contributions	-	-	-
Change in net assets	<u>\$ -</u>	<u>\$(381,145)</u>	<u>\$(381,145)</u>

FORESTHILL PUBLIC UTILITY DISTRICT
 OPERATING EXPENSES
 for the year ended June 30, 2010

Source of Supply:		
Restoration payments	\$ 18,721	
Supervision and labor	13,996	
Maintenance	1,035	
Vehicle expense	867	
Power	2,989	
Inspection and water rights	<u>33,703</u>	
		\$ <u>71,311</u>
Pumping:		
Power	7,460	
Vehicle expense	439	
Maintenance	62	
Propane	230	
Supervision and labor	<u>605</u>	
		<u>8,796</u>
Water treatment:		
Supervision and labor	102,646	
Maintenance	12,178	
Chemical and analysis	32,748	
Vehicle expense	3,308	
Power	10,031	
Propane	<u>2,769</u>	
		<u>163,680</u>
Transmission and Distribution:		
Supervision and labor	211,091	
Maintenance	27,121	
Vehicle expense	8,496	
Propane	<u>701</u>	
		<u>247,409</u>
Customer Accounts:		
Supervision and labor	6,665	
Maintenance	115	
Vehicle expense	<u>1,707</u>	
		<u>8,487</u>

FORESTHILL PUBLIC UTILITY DISTRICT
 OPERATING EXPENSES, continued
 for the year ended June 30, 2010

Administrative and General:

Salaries	\$ 215,621	
Legal services	67,521	
Engineering services	29,903	
Collection charges	1,083	
Accounting	8,160	
Vehicle Expense	789	
Liability insurance	33,128	
Office expense		33,399
Employee benefits and payroll taxes	394,089	
Seminars and travel	5,875	
Utilities	3,796	
Consulting services	-	
Maintenance	1,529	
Dues and subscriptions	11,554	
Computer services	12,868	
Uniforms	3,761	
Public information program	2,710	
Educational expense	3,503	
Election expense	-	
Board remuneration	<u>150</u>	<u>\$ 829,439</u>

Depreciation 313,839

Total operating expenses \$1,642,961

FORESTHILL PUBLIC UTILITY DISTRICT
 SCHEDULE OF FUNDING PROGRESS –
 Other Post-Employment Benefits (OPEB)
 For the year ended June 30, 2010

The table below shows an analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30:

<u>Actuarial Valuation Date</u>	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (4) / (5)
1/1/08	\$ -	\$ -	0.00%	\$613,762	\$434,784	141.16%

No trend information is reported because the year ended June 30, 2010 is the first year the District implemented GASB 45.

FORESTHILL PUBLIC UTILITY DISTRICT
 Foresthill Public Utility District Assessment District No. 1
 Long Term Debt
 for the year ended June 30, 2010

Long-term debt activity for the year ended June 30, 2010 for the bond issue is as follows:

	<u>Balance</u> <u>7/1/2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/2010</u>	<u>Current</u> <u>Portion</u>
Bond issue	\$ <u>445,000</u>	\$ <u>-</u>	\$ <u>445,000</u>	\$ <u>-</u>	\$ <u>-</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.

In March 2010, the loan was repaid in full, twelve years early, and bonds were appropriately released.

FORESTHILL PUBLIC UTILITY DISTRICT
 Foresthill Public Utility District Assessment District No. 2
 Long Term Debt
 for the year ended June 30, 2010

Long-term debt activities for the year ended June 30, 2010 for Assessment District No. 2 are as follows:

	<u>Balance</u> <u>7/1/2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/2010</u>	<u>Current</u> <u>Portion</u>
Loan 91-02	\$1,190,400	\$ -	\$ 20,800	\$1,169,600	\$ 21,800
Loan 91-03	<u>1,796,400</u>	<u>-</u>	<u>30,000</u>	<u>1,766,400</u>	<u>31,500</u>
	<u>\$2,986,800</u>	<u>\$ -</u>	<u>\$ 50,800</u>	<u>\$2,936,000</u>	<u>\$ 53,300</u>

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.

FORESTHILL PUBLIC UTILITY DISTRICT
Foresthill Public Utility District Assessment District No. 2, continued
Long Term Debt
for the year ended June 30, 2010

The future annual maturities of long-term borrowings for Assessment District No. 2 as of June 30, 2010 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	64,300	128,384	192,684
2016-2020	370,700	591,370	962,070
2021-2025	468,400	491,083	959,483
2026-2030	592,300	364,319	956,619
2031-2035	748,800	204,016	952,816
2036-2038	<u>462,500</u>	<u>30,195</u>	<u>492,695</u>
	<u>\$2,936,000</u>	<u>\$2,351,705</u>	<u>\$5,287,705</u>

FORESTHILL PUBLIC UTILITY DISTRICT
ASSESSMENT DISTRICT No. 2
BALANCE SHEET
June 30, 2010

ASSETS

Cash – held at County	\$ 498,047
Future assessments receivable	<u>2,394,125</u>
	<u>\$2,892,172</u>

LIABILITIES AND NET ASSETS

Assessment bond payable	\$2,936,000
Net assets (deficit)	<u>(43,828)</u>
	<u>\$2,892,172</u>

**REPORT ON INTERNAL CONTROLS
AND COMPLIANCE**

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, 2010, and have issued our report thereon dated October 20, 2010. 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.

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

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 October 20, 2010.

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, An Accountancy Corporation
Citrus Heights, California
October 20, 2010