

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

AUDIT REPORT

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

Stroub & Company, CPAs  
1555 River Park Drive, Suite 201  
Sacramento, CA 95815

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Foresthill Public Utility District  
Foresthill, California

We have audited the accompanying financial statements of the the business-type activities, of Foresthill Public Utility District as of June 30, 2011 and for the year then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Foresthill Public Utility District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The District is subject to concerns with its ability to continue in operations. A going concern issue creates the possibility that the District assets may be sold in liquidation. The liquidation valuation of the assets would be significantly less than values recorded in these financial statements. The financial statements reflect estimates and valuations as if the District were to remain in operations and remain viable. If the District were to liquidate, the carrying value of these assets and liabilities would be written down to reflect an estimate of net realizable value.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit of the financial statements of Foresthill Public Utility District was limited by the availability of management and essential staff who were responsible for the transactional activities of the District for the year ended June 30, 2011. Management and essential staff who were responsible for the preparation of the underlying accounting records have been replaced prior to the beginning of the audit and were unavailable. Our ability to conduct auditing tests were impaired as result of the lack of documentation to determine appropriate estimates for the intangible items including the Special District assessments receivable and the inability to determine the effectiveness of essential internal controls with regard to the interfund activity and the commingling of funds. Furthermore, we were unable to determine the reliability of the electronic processing systems and the reliance upon these systems to safeguard District assets.

The District could not comply with requirements of GASB 51 *Accounting and Financial Reporting for Intangible Assets* and the newly implemented GASB 54 *Fund Balance Reporting and Government Fund Type Definitions*. Our audit was limited in testing valuation of water rights because there was no historical valuation determination required by GASB 51. Our audit was limited in testing the new classification methodology as required by GASB 54. The ability of the District to ascertain and observe constraints imposed upon the use of resources reported upon was not determinable as a result of the high level of turnover of management including board members. This impaired the proper classification of the fund balance into the new nomenclature of nonspendable funds and committed funds. As such, the prior methodology and reporting was retained for presentation purposes for this fiscal year.

In our opinion, subject to the District's viability as a going concern, and except for the effects of such adjustments, if any, as might have been determined to be necessary had the District's prior management and essential staff been available to query on transactional history and electronic processing, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Foresthill Public Utility District, as of June 30, 2011, and the changes in financial position and cash flows thereof 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 January 30, 2012, 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 on page 5 through 9, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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.



Stroub & Company, CPAs  
Certified Public Accountant

January 30, 2012

**Foresthill Public Utility District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Foresthill Public Utility District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net assets decreased 2.94% or \$169,850 to \$5.78 million in fiscal year 2011. In 2010, the District's net assets decreased by 6.19% or \$381,000 to \$6.16 million. These decreases can be attributed to actual operation costs exceeding water charges.
- In 2011, the District's operating revenue increased 20.00% or \$284,500 from the prior year due to a rate increase. In 2010, the District's operating revenues essentially equal to the prior year.
- In both 2010 and 2011, the District's operating expenses before depreciation were stable and increased by less than 1.00% over each of the previous years.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of*

**Foresthill Public Utility District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, new or changed government legislation or accounting standards, as well as changes in Federal and State water quality standards.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 32.

Condensed Statement of Net Assets

	2011	2010	Change	2009	Change
<b>Assets:</b>					
Current assets	311,931	345,575	(33,644)	524,638	(179,063)
Non-current assets	817,422	592,990	224,432	504,781	88,209
Capital and intangible assets, net	<u>7,253,454</u>	<u>7,668,210</u>	<u>(414,756)</u>	<u>7,989,870</u>	<u>(321,660)</u>
<b>Total assets</b>	<b><u>8,382,807</u></b>	<b><u>8,606,775</u></b>	<b><u>(223,968)</u></b>	<b><u>9,019,289</u></b>	<b><u>(412,514)</u></b>
<b>Liabilities:</b>					
Current liabilities	360,497	304,908	55,589	216,753	88,155
Non-current liabilities	<u>2,413,811</u>	<u>2,523,520</u>	<u>(109,709)</u>	<u>2,643,044</u>	<u>(119,524)</u>
<b>Total liabilities</b>	<b><u>2,774,308</u></b>	<b><u>2,828,428</u></b>	<b><u>(54,120)</u></b>	<b><u>2,859,797</u></b>	<b><u>(31,369)</u></b>
<b>Net assets:</b>					
Net investment in capital assets, net of related debt	4,839,643	4,911,340	(71,697)	5,090,001	(178,661)
Restricted	680,564	416,850	263,714	397,732	19,118
Unrestricted	<u>88,292</u>	<u>450,157</u>	<u>(361,865)</u>	<u>671,759</u>	<u>(221,602)</u>
<b>Total net assets</b>	<b><u>5,608,499</u></b>	<b><u>5,778,347</u></b>	<b><u>(169,848)</u></b>	<b><u>6,159,492</u></b>	<b><u>(381,145)</u></b>
<b>Total liabilities and net assets</b>	<b><u>8,382,807</u></b>	<b><u>8,606,775</u></b>	<b><u>(223,968)</u></b>	<b><u>9,019,289</u></b>	<b><u>(412,514)</u></b>

**Statements of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$8.38 million and \$8.61 million as of June 30, 2011 and 2010, respectively.

By far the largest portion of the District's net assets (93% and 85% as of June 30, 2011 and 2010 respectively) reflect the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2011 the District showed a negative balance in unrestricted net assets. This is a result of operating expenditures exceeding revenues for a prolonged period of time and represents a serious danger to the District in that it is borrowing and expending "one time funds" for ongoing

**Foresthill Public Utility District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

operations. In 2010, the District showed a positive balance in its unrestricted net assets of \$450,000 which was almost a 33% reduction in net assets from the prior year. This shows that the Districts "bleed" in net assets has been a serious and on-going situation.

**Statements of Revenues, Expenses and Changes in Net Assets**

	2011	2010	Change	2009	Change
Revenues					
Operating Revenues	1,703,027	1,418,446	284,581	1,422,413	(3,967)
Non-operating revenues	66,485	78,038	(11,553)	123,879	(45,841)
<b>Total revenues</b>	<b>1,769,512</b>	<b>1,496,484</b>	<b>273,028</b>	<b>1,546,292</b>	<b>(49,808)</b>
Expenses:					
Operating expenses	1,337,690	1,329,122	8,568	1,324,268	4,854
Depreciation	291,817	313,839	(22,022)	371,184	(57,345)
Non-operating expenses	221,337	234,668	(13,331)	240,967	(6,299)
<b>Total expenses</b>	<b>1,850,844</b>	<b>1,877,629</b>	<b>(26,785)</b>	<b>1,936,419</b>	<b>(58,790)</b>
<b>Net income(loss) before contributions</b>	<b>(81,332)</b>	<b>(381,145)</b>	<b>299,813</b>	<b>(390,127)</b>	<b>8,982</b>
Capital contributions					
<b>Change in net assets</b>	<b>(81,332)</b>	<b>(381,145)</b>	<b>299,813</b>	<b>(390,127)</b>	<b>8,982</b>
Net assets, beginning of year	5,778,347	6,159,492	(381,145)	6,549,619	(390,127)
Prior period adjustment	(88,516)				
<b>Net assets, end of year</b>	<b>5,608,499</b>	<b>5,778,347</b>	<b>(169,848)</b>	<b>6,159,492</b>	<b>(381,145)</b>

The Statement of Revenues, Expenses and Changes of Net Assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets decreased by \$326,000 in the fiscal year ended June 30, 2011 and by \$390,000 for the fiscal year ended June 30, 2010.

**Total District Revenues**

Total District Revenues					
	2011	2010	Change	2009	Change
Operating Revenues					
Sales of water	1,180,721	1,052,827	127,894	1,095,299	(42,472)
Service connection fees	52,307	25,024	27,283	30,240	(5,216)
Sugar Pine surcharge	228,576	180,362	48,214	176,455	3,907
Other income	67,988	160,233	(92,245)	120,419	39,814
<b>Total operating revenues</b>	<b>1,529,592</b>	<b>1,418,446</b>	<b>111,146</b>	<b>1,422,413</b>	<b>(3,967)</b>
Non-operating revenues					
Interest Income	2,671	4,229	(1,558)	40,744	(36,515)
Property Taxes	68,820	73,809	(4,989)	78,625	(4,816)
Gain on sale				4,510	
<b>Total non-operating revenues</b>	<b>71,491</b>	<b>78,038</b>	<b>(6,547)</b>	<b>123,879</b>	<b>(41,331)</b>
<b>Total revenues</b>	<b>1,601,083</b>	<b>1,496,484</b>	<b>104,599</b>	<b>1,546,292</b>	<b>(45,298)</b>

In 2011, as noted previously, total District operating revenue increased 7.84% due to a fee increase, which was subsequently reversed. Non-operating revenues continue to decrease due to falling interest rates and property revaluations.

**Foresthill Public Utility District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**Total District Expenses**

Total District Expenses					
	2011	2010	Change	2009	Change
Operating expenses					
Source of supply	101,943	71,311	30,632	73,077	(1,766)
Pumping	10,748	8,796	1,952	10,120	(1,324)
Water treatment	169,436	163,680	5,756	174,397	(10,717)
Transmission and distribution	247,732	247,409	323	248,035	(626)
Customer accounts	9,030	8,487	543	20,884	(12,397)
Administrative and general	798,800	829,439	(30,639)	797,755	31,684
Depreciation	291,817	313,839	(22,022)	371,184	(57,345)
<b>Total operating expenses</b>	<b>1,629,506</b>	<b>1,642,961</b>	<b>(13,455)</b>	<b>1,695,452</b>	<b>(52,491)</b>
Non-operating expenses					
Interest expense	121,337	134,668	(13,331)	140,967	(6,299)
Assistance - Assessment District #2	100,000	100,000	-	100,000	-
<b>Total non-operating expenses</b>	<b>221,337</b>	<b>234,668</b>	<b>(13,331)</b>	<b>240,967</b>	<b>(6,299)</b>
<b>Total expenses</b>	<b>1,850,843</b>	<b>1,877,629</b>	<b>(26,786)</b>	<b>1,936,419</b>	<b>(58,790)</b>

As noted earlier, the District's operating expenditures before depreciation have remained stable for the past few years. Non-operating expenses decreased due to smaller interest payments as the bond balances decrease.

**Capital Asset Administration**

At the end of fiscal year 2011, the District's investment in capital assets amounted to \$7.47 million (net of accumulated depreciation). This investment in capital assets includes: land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-progress, etc.

Changes in capital asset amounts for the year were as follows:

	Balance 2010	Additions	Transfers/ Deletions	Balance 2011
Capital assets				
Land	36,568			36,568
Source of supply	2,630,510			2,630,510
Pumping plant	20,962			20,962
Water treatment	1,179,256			1,179,256
Transmission & distribution	7,953,113			7,953,113
General Plant	671,349	21,599		692,948
Depreciation	(5,017,773)	(242,130)		(5,259,903)
	<b>7,473,985</b>	<b>(220,531)</b>	<b>-</b>	<b>7,253,454</b>

**Intangible Assets**

**Foresthill Public Utility District**  
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**For the Fiscal Years Ended June 30, 2011 and 2010**

Changes in long-term debt amounts for the year were as follows:

	Balance 2010	Additions	Payments/ Deletions	Balance 2011	Current Portion
2003 Series COPs	2,595,000		100,000	2,495,000	100,000
Total long-term debt	2,595,000	-	100,000	2,495,000	100,000

**Debt Administration**

(See Notes 4 and 5 for further debt service information)

**Going Forward**

The District faces dire times in the coming year. A special election in June, 2011, reversed the increase in water rates. Current projections show that, even with the drastic reductions in staff and operating costs already made, the District stands to run out of cash in early 2012.

With the reduced staff, service calls are being strictly categorized as to priority. Many maintenance requests will simply have to be shelved as “deferred maintenance” projects. Infrastructure will also begin to suffer due to reductions in preventative maintenance opportunities.

If the rate reduction is not reversed and sufficient rates established, the District will likely close its doors on June 20, 2012. Should this happen, the State will likely step in, increase rates and find another agency to take over the service.

While it may be appealing to have the District join another district, the people of Foresthill will lose the ability to determine their own fate as they become a small fish in a big pond.

**Requests for Information**

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

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

**ASSETS**

	<u>2011</u>
Current Assets:	
Cash and cash equivalents (Note 2)	\$ 114,726
Accounts receivable	152,095
Prepaid Expenses	18,855
Inventory - materials and supplies	<u>26,255</u>
Total Current Assets	\$ <u>311,931</u>
Noncurrent Assets:	
Capital assets, at costs (Notes 3 and 4)	\$ 12,513,357
Less accumulated depreciation	<u>(5,259,903)</u>
Net Capital Assets	\$ <u>7,253,454</u>
Other Assets	
Debt issuance costs	\$ 136,858
Restricted cash and cash equivalent (Note 2)	<u>680,564</u>
Total Other Assets	\$ <u>817,422</u>
Total Assets	\$ <u>8,382,807</u>

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

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

## STATEMENT OF NET ASSETS

JUNE 30, 2011

## LIABILITIES

	<u>2011</u>
Current Liabilities:	
Accounts payable	\$ 13,628
Customer deposits	23,363
Due to Assessment District	84,371
Accrued Liabilities	25,674
Compensated absences payable	55,787
Other post-employee benefits payable (Note 8)	50,298
Current portion of capital leases (Note 5)	7,376
Current portion of long-term debt (Note 4)	\$ <u>100,000</u>
Total Current Liabilities	\$ <u>360,497</u>
Noncurrent Liabilities:	
Long-term debt, net of current portion (Note 4)	\$ 2,395,000
Add - bond premium, net of amortization	<u>18,811</u>
Total noncurrent liabilities	\$ <u>2,413,811</u>
Total liabilities	\$ <u>2,774,308</u>
Net assets (Note 10)	
Invested in capital assets, net of related debt	\$ 4,839,643
Restricted	680,564
Unrestricted	<u>88,292</u>
Total Net Assets	\$ <u>5,608,499</u>
Total Liabilities and Net Assets	\$ <u><u>8,382,807</u></u>

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

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>2011</u>
Operating Revenues:	
Sales of Water	\$ 1,179,332
Service Connection Fees	52,307
Sugar Pine Surcharge	228,576
Rehab Surcharges	112,704
Other Income	<u>130,108</u>
Total Operating Revenues	\$ <u>1,703,027</u>
Operating Expenses:	
Source of supply	\$ 101,943
Pumping	10,748
Water treatment	169,436
Transmission and distribution	247,733
Customer accounts	9,030
Administration and General	798,800
Depreciation	<u>291,817</u>
Total Operating Expenses	\$ <u>1,629,507</u>
Operating Income (Loss)	\$ <u>73,520</u>
Nonoperating revenues/expenses:	
Interest income	\$ 2,671
Property taxes	63,814
Interest expense	(121,337)
Assessment District Assistance	<u>(100,000)</u>
Change in Net Assets	\$ (81,332)
Net Assets - Beginning of Year	<u>5,778,347</u>
Prior Period Adjustment (Note 12)	<u>(88,516)</u>
Net Assets - End of Year	\$ <u><u>5,608,499</u></u>

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

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**STATEMENT OF CASH FLOWS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Operating income/(loss)	\$	73,520
Adjustments in operating assets and liabilities		
Depreciation and Amortization	\$	291,817
Decrease in Receivables		34,239
Increase in Prepaid expense		14,982
Increase in Inventory		(737)
Increase in Accounts Payable		64,155
Increase in Customer Deposits		3,425
Increase in Other Accrued Liabilities		<u>(23,998)</u>
Total Adjustments	\$	383,883
Net cash provided by operating activities	\$	<u>457,403</u>
Cash flows from noncapital financing activities:		
Receipts of property taxes and other nonoperating income	\$	<u>63,814</u>
Net Cash Provided by Noncapital Financing Activities	\$	<u>63,814</u>
Cash flows from capital and related financing activities:		
Capital contributions and Net Fund Transfers	\$	(194,633)
Purchase of capital assets		(21,599)
Interest paid on capital debt		(121,337)
Principal payments on long-term debt		<u>(119,524)</u>
Net cash used by capital and related financing activities	\$	<u>(457,093)</u>
Cash Flows from Investing Activities:		
Interest income	\$	<u>2,671</u>
Net Cash provided by Investing Activities	\$	<u>2,671</u>
Net Increase in Cash and Cash Equivalents	\$	66,795
Balances - Beginning of Year (restated)		<u>728,495</u>
Balances - End of Year	\$	<u>795,290</u>

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

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

### NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

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

#### A. The Reporting Entity

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

The District has created the Foresthill Public Utility 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 District is legally separate from the District. The financial activities of the Assessment District 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 District is disclosed in supplemental information.

#### B. Basis of Presentation Fund Accounting

The Districts 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.

#### C. Basis for 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.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2011

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 results from nonexchange transactions or ancillary activities.

### D. Property Taxes

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

### E. Inventories

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

### F. 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.

### G. 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

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2011

H. 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.

I. Compensated Absences

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

J. 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.

K. 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.

L. Bond Premium and Insurance 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.

M. 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.

Governmental Accounting Standards Board Statement No. 54

In September 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of GASB 54 is to enhance the usefulness of fund balance information by 1) clarifying existing governmental fund type definitions, and 2) providing clearer fund balance classifications that can be more consistently applied. The District elected to adopt implementation of GASB 54 starting with the fiscal year ending June 30, 2012 due to classification difficulties.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

JUNE 30, 2011

NOTE 2 CASH AND INVESTMENTS

Cash and investments at June 30, 2011 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 114,726
Restricted cash and cash equivalents	<u>680,564</u>
Total cash and investments	<u>\$ 795,290</u>

Cash and investments at fair value at June 30, 2011 consist of the following:

Cash on hand	\$ 250
Deposits with financial institutions	<u>84,818</u>
Total cash and deposits	\$ 85,068
Investments in Local Agency Investment Fund (LAIF)	452,386
Restricted with Fiscal Agent	<u>257,836</u>
Total Investments	<u>\$ 710,222</u>
Total cash and investments	<u>\$ 795,290</u>

Investments

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

Local agency Investment Fund

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

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, 2011, the District had no individual investment that exceeded 5% of its total investments.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2011

### 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 local amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2011, the carrying amount of the District's pooled investment funds deposited with governmental entities were \$678,723 and the balance of the District's deposits are held in financial institutions in the amount of \$116,317. All of the balance in financial institutions was covered by federal depository insurance.

### Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are amounts required for debt service payments by the 2003 Certificates of Participation and funds set aside, at board discretion, for future plant improvement. At June 30, 2011, the District had set aside the following for special purposes:

Capital reserve (Board designated)	\$	153,584
Repair and replacement reserve (Board designated)	\$	269,144
2003 Certificates of Participation Reserve Fund		<u>257,836</u>
Total Restricted Cash and Cash Equivalents	\$	<u>680,564</u>

### NOTE 3 CAPITAL ASSETS

Restated changes in capital assets for the year ended June 30, 2011 are as follows:

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
Land	\$ 36,568	\$	\$	\$ 36,568
Source of supply	2,630,510			2,630,510
Pumping plant	20,962			20,962
Water treatment	1,179,256			1,179,256
Transmission & distribution	7,953,113	21,599		7,974,712
General Plant	<u>671,349</u>			<u>671,349</u>
	<u>\$12,491,758</u>	<u>\$ 21,599</u>	<u>\$</u>	<u>\$12,513,357</u>

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

NOTES TO FINANCIAL STATEMENTS  
(Continued)

JUNE 30, 2011

NOTE 4 LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2011 is as follows:

:	<u>Balance at</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at</u> <u>June 30, 2011</u>	<u>Current</u> <u>Portion</u>
2003 Certificates of Participation	\$ <u>2,595,000</u>	\$ _____	\$ <u>100,000</u>	\$ <u>2,495,000</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 5.75%. The District maintains a Trustee reserve fund equal to the maximum annual installment payable. Interest is payable on May 1 and November 1 of each year.

The future annual maturities of long-term borrowings as of June 30, 2011 are as follows:

Due Oct 15 of:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 100,000	\$ 123,238	\$ 223,238
2012	100,000	119,638	219,638
2013	100,000	116,213	216,213
2014	100,000	112,463	212,463
2015	105,000	107,463	212,463
2016-2020	615,000	452,813	1,067,813
2021-2025	790,000	281,350	1,071,350
2026-2028	<u>585,000</u>	<u>62,475</u>	<u>647,475</u>
	\$ <u>2,495,000</u>	\$ <u>1,375,653</u>	\$ <u>3,870,653</u>

NOTE 5 CAPITAL LEASES

The District entered in a capital lease agreement to finance a District vehicle. The asset is recorded using the present value of the minimum lease payments and is depreciated over its estimated productive life. The capitalized value of the truck lease is \$7,376.

Minimum future lease payments under capital leases as of June 30, 2011 are:

2012	\$ 7,453
2013-2017	<u>-</u>
Total payments	\$ 7,453
Less amount representing interest	<u>77</u>
Present value of net minimum lease payments	\$ <u>7,376</u>

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2011

### NOTE 6 RETIREMENT PLAN

The District's policy is to fund retirement benefits with the State of California Public Employee's 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 State in determining the funding method, the adequacy of funding, and the spreading of the actuarial gains and losses.

#### 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 with 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 Account 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 estimated market are reported at estimated fair value.

Under GASB 17, 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, 2010 to June 30, 2011, has been determined by an actuarial valuation of the plan as of June 30, 2010.

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 the year ended June 30, 2011, the District paid total contributions of \$90,188, including employee's portion.

#### Pooled Report Format

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

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2011

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

Valuation date	June 30, 2010
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Average remaining period	17 years as of the valuation date
Asset valuation method	15 year smooth market
Actuarial assumptions	
Investment rate of return	7.75% (net of administrative expenses)
Projected salary increases	3.55% 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 era 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.

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

Valuation Date	Accrued Liabilities	Actuarial Assets	Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UL As a % of Payroll
Jun 2006	\$620,492,183	\$501,707,110	\$118,785,073	80.9 %	\$126,049,770	94.2 %
Jun 2007	\$699,663,524	\$576,069,687	\$123,593,837	82.3 %	\$139,334,562	88.7 %
Jun 2008	\$776,166,719	\$641,167,624	\$134,999,095	82.6 %	\$155,115,302	87.0 %
Jun 2009	\$883,394,429	\$694,384,975	\$189,009,454	78.6 %	\$161,972,631	116.7 %
Jun 2010	\$945,221,095	\$754,858,961	\$190,362,134	79.9 %	\$159,156,834	119.6 %

### NOTE 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**

Foresthill, California

NOTES TO FINANCIAL STATEMENTS  
(Continued)

JUNE 30, 2011

NOTE 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, employees must retire with the District at age 60 or older or must be permanently disabled. For the year ended June 30, 2011, the District contributed for eight retirees that received benefits at a cost of approximately \$37,222.

*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	\$	62,787
Interest on net OPEB obligation		5,881
Adjustment of annual required contribution		<u>(4,390)</u>
Annual OPEB cost	\$	64,278
Contribution made		<u>64,278</u>
Net OPEB obligation beginning of year		<u>50,298</u>
Net OPEB obligation end of year	\$	<u>50,298</u>

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the Plan (as described in the funding policy above as the amortized portion of the Unfunded Actuarial Accrued Liability), and the Net Required Amortized OPEB Obligation for June 30, 2011 is as follows:

	Valuation	Annual	Actual	Percentage	Unmet
	Date	OPEB Cost	Employer	of Annual	Annual Net
			Contribution	OPEB Cost	OPEB
				Contributed	Obligation
June 2010	Jan 5, 2011	\$ 75,888	\$ 25,590	33.7 %	\$ 50,298
June 2011	Jan 5, 2011	\$ 64,278	\$ 64,278	100.0 %	\$ 50,298

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

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

NOTES TO FINANCIAL STATEMENTS  
(Continued)

JUNE 30, 2011

Funded Status and Funding Progress

The Schedule of Funding Status and Progress below is based on an actuarial valuation as of January 5, 2011 the plan's most recent actuarial valuation. The unfunded deficit since the prospective implementation of the GASB Statement 45 shows:

	(1)	(2)	(3)	(4)	(5)	(6)
	Actuarial	Actuarial		Unfunded		UAAL, as
Actuarial	Value	Accrued		Actuarial	Annual	Percentage
Valuation	of Plan	Liability	Funded	Liability	Covered	of Covered
Date	Assets	(AAL)	Ratio	(UAAL)	Payroll	Payroll
				(2)-(1)		(4)/(5)
June 30, 2010	\$ -	\$613,762	- %	\$613,762	\$434,784	141.2 %
June 30, 2011	\$ -	\$774,364	- %	\$774,364	\$499,884	154.9 %

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 perspective of calculations.

In the January 5, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return, an assumed inflation rate, and an increase in covered payroll at the rate of 3.25% per year. Medical premiums have been assumed to rise at a decreasing rate (from 9% in 2010 to 4.5% in 2017) and dental premiums by 3%.

The OPEB Plan's unfunded actuarial liability is being amortized by level percent of payroll contributions over 30 years. The remaining amortization period at June 30, 2011 was 29 years.

NOTE 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 coverage to provide for these risks with liability limits of \$10,000,000.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

JUNE 30, 2011

NOTE 10 NET ASSETS

Net assets at June 30, 2011 is analyzed as follows:

Investment in capital assets, net of related debt		\$	4,839,643	
Restricted				
Capital improvement reserve	\$	153,584		
Repair and replacement reserve		257,836		
Sugar Pine Reserve		<u>269,144</u>		
			680,564	
Unrestricted				
Board Designated Reserves	\$	29,657		
Undesignated		<u>58,635</u>		
			<u>88,292</u>	
Total net assets		\$	<u>5,608,499</u>	

NOTE 11 PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009/2010 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.

NOTE 12 PRIOR PERIOD ADJUSTMENTS

There were significant restatements for the prior period as a result and discovery of documentation supporting reduced balances in the assets and liabilities of the District held at the beginning of the audit period. The net effect of these adjustments are reflected as a net adjustment to Fund Balance. The Board has not formed a conclusion on the underlying reason.

NOTE 13 SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 30, 2012, the date these June 30, 2011 financial statements were available to be issued.

The District was subject to a local election to roll back rates to the prior levels that were in force in 2009 and increases are limited to the urban consumer price index. As a result, the District reduced expenses including staff positions to a minimal level in order to continue operations and is steadily consuming its future reserves in order to continue operations at the reduced level.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2011

NOTE 13 SUBSEQUENT EVENTS (continued)

The District has determined that it is not in compliance with operational covenant with regard to the acquisition bonds for the Sugar Pine reservoir. The District has continued to make the minimum payments on these bonds during the current fiscal period, but has not fully determined the legal impact of the violation or of its continued ability to make these payments in the future with the revenue constraints.

The District has determined that its ability to continue as a going concern is in jeopardy and believes that the electoral process is needed to rescind the rollback rate initiative. It has established that an election will be held at the end of the current fiscal year and will request this rescission to the electoral population.

The District has ruled that it has authority to modify rate structures in spite of the roll back in rates previously approved in a special election and authorized a rate increase to take effect in January 2012. The District has received threats of litigation but believes it will prevail in any legal contest as its ability to continue as a going concern is in jeopardy.

SUPPLEMENTAL DATA

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

PRINCIPAL OFFICIALS

AS OF JUNE 30, 2011

**Board of Directors**

Adam W. Larsen	President
Bradley D. Reeves	Vice President
William L. Angerer	Treasurer
Brett C. Grant	Director
Brett Finning	Director

**Operations**

Jo Ann Glover	Business Manager
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**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original <u>Budget</u>	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
Operating Revenues:				
Sales - Residential	\$ 1,062,511	\$ 1,062,511	\$ 830,391	\$ (232,120)
Sales - Multi-Family			128,411	128,411
Sales - Business	131,222	131,222	128,469	(2,753)
Other	<u>407,938</u>	<u>407,938</u>	<u>503,003</u>	<u>95,065</u>
 Total Operating Revenues	 <u>\$ 1,601,671</u>	 <u>\$ 1,601,671</u>	 <u>\$ 1,590,274</u>	 <u>\$ (11,397)</u>
Operating Expenses:				
Source of supply	\$ 89,050	\$ 89,050	\$ 101,943	\$ (12,893)
Pumping	8,700	8,700	10,748	(2,048)
Water treatment	170,500	170,500	169,436	1,064
Transmission and distribution	279,875	279,875	247,732	32,143
Customer accounts	8,800	8,800	9,030	(230)
Administration and General	743,288	743,288	798,800	(55,512)
Depreciation	<u>                    </u>	<u>                    </u>	<u>291,817</u>	<u>(291,817)</u>
 Total Operating Expenses	 <u>\$ 1,300,213</u>	 <u>\$ 1,300,213</u>	 <u>\$ 1,629,506</u>	 <u>\$ (329,293)</u>
 Operating income (loss)	 <u>\$ 301,458</u>	 <u>\$ 301,458</u>	 <u>\$ (39,232)</u>	 <u>\$ (340,690)</u>
Nonoperating revenues/expenses:				
Interest income	\$ 750	\$ 750	\$ 2,720	\$ 1,970
Property taxes	75,930	75,930	63,814	(12,116)
Interest expense	(126,337)	(126,337)	(121,337)	(5,000)
Assessment District Assist	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>                    </u>
Total Nonoperating Revenues/Expenses	<u>\$ (149,657)</u>	<u>\$ (149,657)</u>	<u>\$ (154,803)</u>	<u>\$ (15,146)</u>
 Change in Net Assets	 \$ 151,801	 \$ 151,801	 \$ (194,035)	 \$ (355,836)

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

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## OPERATING EXPENSES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Source of supply			
Restoration payments	\$	17,317	
Supervision and labor		13,389	
Maintenance		3,172	
Instrumentation Report/Study		4,300	
General Engineering Services		20,857	
Vehicle expense		1,391	
Power		2,949	
Inspection and water rights		<u>38,568</u>	
			\$ 101,943
Pumping			
Power	\$	7,395	
Vehicle expense		873	
Maintenance		33	
Propane		1,645	
Supervision and labor		<u>802</u>	
			10,748
Water treatment			
Supervision and labor	\$	115,650	
Maintenance		14,710	
Chemical and analysis		30,343	
Vehicle expense		1,955	
Power		4,605	
Propane		<u>2,173</u>	
			169,436
Transmission and Distribution			
Supervision and labor	\$	204,729	
Maintenance		31,154	
Vehicle expense		10,436	
Propane		<u>1,414</u>	
			247,733
Customer accounts			
Supervision and labor	\$	7,296	
Vehicle expense		<u>1,734</u>	
			<u>9,030</u>
Balance forwarded			\$ 538,890

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

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## OPERATING EXPENSES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Balance forwarded		\$ 538,890
Administrative and general		
Salaries	\$ 243,732	
Legal services	104,394	
Collection charges	2,065	
Accounting	7,711	
Vehicle expense	859	
Liability insurance	55,697	
Office expense	16,979	
Employee benefits and payroll tax	236,090	
Retiree benefits	28,911	
OPEB Funding	27,056	
Seminars and travel	2,237	
Utilities	10,675	
Consulting services	6,250	
Maintenance	1,984	
Dues and subscriptions	9,736	
Computer services	10,039	
Uniforms	4,860	
Public information program	1,285	
Educational expense	5,434	
Safety	7,656	
Election expense	5,045	
Other Expenses	<u>10,105</u>	
		<u>798,800</u>
		\$ 1,337,690
Depreciation		<u>291,817</u>
Total operating expense		\$ <u>1,629,507</u>

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

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**FOOTHILL PUBLIC UTILITY DISTRICT ASSESSMENT DISTRICT NO. 2  
STATEMENT OF NET ASSETS**

JUNE 30, 2011

ASSETS

Cash - held at County	\$ 425,429
Interfund Receivable	<u>84,371</u>
Total Current Assets	\$ 509,800
Future assessments receivable	\$ <u>2,281,907</u>
Total Assets	\$ <u>2,791,707</u>

LIABILITIES AND NET ASSETS

Current Portion of Bonds Payable	\$ 55,900
Accrued Interest	<u>34,591</u>
Total Current Liabilities	\$ 90,491
Assessment bond payable	<u>2,826,800</u>
Total Liabilities	\$ <u>2,917,291</u>
Net assets	\$ <u>(125,584)</u>
Total Liabilities and Net Assets	\$ <u>2,791,707</u>

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

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**FOOTHILL PUBLIC UTILITY DISTRICT ASSESSMENT DISTRICT NO. 2  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

JUNE 30, 2011

Revenues

Property Tax Revenues	\$ 86,020
PUD Assistance	100,000
Other Income	13,292
Interest Income	<u>7,626</u>
Total Revenues	\$ 206,938

Expenses

Interest Expense	\$ <u>139,002</u>
Change in Net Assets	\$ <u>67,936</u>
Net Assets - Beginning of Year	\$ (43,828)
Prior Period Adjustment (Note 12)	<u>(149,692)</u>
Net Assets - End of Year	\$ <u>(125,584)</u>

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

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**FOOTHILL PUBLIC UTILITY DISTRICT ASSESSMENT DISTRICT NO. 2  
STATEMENT OF CASH FLOWS**

JUNE 30, 2011

Change in Net Assets	\$	67,936
Adjustments in operating assets and liabilities		
Increase in Receivable		(84,371)
Decrease in Receivables		33,058
Decrease in Other Accrued Liabilities		<u>(640)</u>
Total Adjustments	\$	(51,953)
Net cash provided by operating activities	\$	<u>15,983</u>
Cash flows from financing activities:		
Principal payments on long-term debt	\$	<u>(53,300)</u>
Net cash used by financing activities	\$	<u>(53,300)</u>
Net provided in Cash and Cash Equivalents	\$	(37,317)
Balances - Beginning of Year (restated)		<u>462,746</u>
Balances - End of Year	\$	<u><u>425,429</u></u>
Supplementary information		
Cash paid for interest	\$	<u><u>121,337</u></u>

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**FOOTHILL PUBLIC UTILITY DISTRICT ASSESSMENT DISTRICT NO. 2  
STATEMENT OF LONG TERM DEBT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Long-term debt activities for the year ended June 30, 2011 for Assessment District No. 2 are as follows:

	Balance <u>7/1/2010</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>6/30/2011</u>	Current <u>Portion</u>
Loan 91-02	1,169,600	\$ -	\$ (21,800)	\$1,147,800	\$ 22,900
Loan 91-03	<u>1,766,400</u>	<u>-</u>	<u>(31,500)</u>	<u>1,734,900</u>	<u>33,000</u>
	<u>2,936,000</u>	<u>\$ -</u>	<u>\$ (53,300)</u>	<u>\$2,882,700</u>	<u>\$ 55,900</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 and 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, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	68,700	125,222	193,922
2017-2020	302,000	466,148	768,148
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>\$ 2,882,700</u>	<u>\$ 2,212,062</u>	<u>\$ 5,094,762</u>

REPORT ON INTERNAL CONTROLS AND COMPLIANCE



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

Board of Directors  
Foresthill Public Utility District  
Foresthill, California

We have audited the accompanying financial statements of the the business-type activities, of Foresthill Public Utility District as of June 30, 2011 and for the year then ended, and have issued our reports thereon dated January 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 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

Compliance and other Matters

As part of obtaining reasonable assurance about whether the Foresthill Public Utility District's financial statements are free of material misstatements, 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 January 30, 2012.

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.

*Stroub and Company*

Stroub & Company, CPAs  
Certified Public Accountant

January 30, 2012