

**FORESTHILL  
PUBLIC UTILITY DISTRICT**

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**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
for the year ended June 30, 2007**

**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 (the "District") as of and for the year ended June 30, 2007, 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, 2007 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 10, 2007 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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

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

*Robert W. Johnson, An Accountancy Corporation*

Citrus Heights, California  
October 10, 2007

# FORESTHILL PUBLIC UTILITY DISTRICT

[www.foresthillpud.com](http://www.foresthillpud.com)

## BOARD OF DIRECTORS

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

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

## Management's Discussion and Analysis For Fiscal Year July 1, 2006 - June 30, 2007

The following discussion and analysis of the Foresthill Public Utility District (the "District") and its financial performance provides an overview of the District's financial activities, prepared by its management for the year ended June 30, 2007. This discussion and analysis should be read in conjunction with the District's financial statements and accompanying notes, which follow this section.

### **Background**

The District was formed in 1950 pursuant to the provisions of Section 15501 et. seq. California Public Utilities Code for the purpose of operating a water system. The District's service area comprises the unincorporated community of Foresthill, California, located in Placer County approximately 60 miles Northeast of Sacramento. The District is governed by a five member Board of Directors, and currently employs 10 full-time employees. The District currently incorporates an area of approximately 13,300 acres and contains primarily residential development. The District has a population of approximately 5,900, and as of June 30, 2007 provided 1,941 water service connections.

### **Rates and Charges**

The District places a high priority on rate stability while providing exceptional service to its customers. To control rate increases the District implements a conservative, long-term planning approach that controls spending and focuses expenditures on the highest priorities. The District's water rates increased 13.65% in December 2006, the first increase since 2001. This brought the rate for basic residential service for 0-10,000 gallons from \$22.00 to \$25.00 per month.

### **Financial Reporting**

Management's discussion and analysis of the Foresthill Public Utility District's financial performance provides an overview of the District's activities, as well as, its financial condition for the year ended June 30, 2007. For this report, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34 that establishes financial reporting standards for state and local governments, including enterprise districts such as Foresthill PUD. In upcoming Fiscal Year 2007-2008 District plans to complete an actuarial regarding District paid retiree benefits in order to satisfy GASB Statement No. 45 with full implementation occurring Fiscal Year 2008-2009.

The District's finances span three separate funds:

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

### **Financial Highlights**

- Fiscal Year 2006-2007 General Fund revenues were up 17.12% over Fiscal Year 2005-2006 revenues (\$1,279,578 vs. \$1,092,527). Expenses were up 3.24% for the same period (\$1,084,163 vs. \$1,050,177).
- End of Fiscal Year 2006-2007 District General Reserve Fund increased 9.78% compared to the previous year (\$538,286 vs. \$490,330).
- Contributed Revenue for Fiscal Year 2006-2007 was \$183,275. This is the total dollar value of constructed and installed water system infrastructure, equipment and studies of same, paid for by new development and others formally accepted by District Board of Directors for Operations and Maintenance.

1. Walnut Orchard Subdivision - infrastructure \$183,275

### **Work in Progress**

Preparation of Master Plan update. Anticipated acceptance December 12, 2007. Work being performed by Eco:Logic Engineering Firm. Cost to date: \$81,361.

### **Requests for Information**

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

Kurt W. Reed, General Manager [kreed@foresthillpud.com](mailto:kreed@foresthillpud.com) (530) 367-2511  
Patricia L. Pappas, Business Manager [ppappas@foresthillpud.com](mailto:ppappas@foresthillpud.com) (530) 367-2511  
PO Box 266  
24540 Main Street  
Foresthill, CA 95631

**FORESTHILL PUBLIC UTILITY DISTRICT  
COMBINED BALANCE SHEET**

June 30, 2007

(with comparative totals for fiscal year ended June 30, 2006)

ASSETS

	ASSETS			Totals (Memorandum only)	
	Enterprise Fund	Improvement Bond Fund	Assessment District No. 2	2007	2006
Current assets:					
Cash in checking	\$ 12,640	\$	\$	\$ 12,640	\$ 3,894
Temporary investments	538,286			538,286	490,330
Accounts receivable	119,050			119,050	94,604
Prepaid expenses	-			-	-
Inventory - materials and supplies	<u>33,984</u>			<u>33,984</u>	<u>41,001</u>
Total current assets	<u>703,960</u>			<u>703,960</u>	<u>629,829</u>
Capital assets, at cost (Note 4)	12,275,413			12,275,413	11,887,213
Less, accumulated depreciation	<u>4,074,344</u>			<u>4,074,344</u>	<u>3,734,612</u>
	8,201,069			8,201,069	8,152,601
Construction in progress	<u>-</u>			<u>-</u>	<u>-</u>
	<u>8,201,069</u>			<u>8,201,069</u>	<u>8,152,601</u>
Debt issuance costs, net	<u>168,141</u>			<u>168,141</u>	<u>175,961</u>
Restricted assets:					
Temporary investment – reserves	526,593			526,593	663,138
Certif. of Partic. – reserve fund	<u>270,127</u>			<u>270,127</u>	<u>269,379</u>
	<u>796,720</u>			<u>796,720</u>	<u>932,517</u>
Improvement Bond Fund:					
Future assessments receivable		438,031		438,031	411,684
Temporary investments		215,371		215,371	252,960
Assessment District No. 2:					
Temporary investments			439,515	439,515	408,618
Future assessments receivable			<u>2,309,707</u>	<u>2,309,707</u>	<u>2,415,072</u>
	<u>\$ 9,869,890</u>	<u>\$ 653,402</u>	<u>\$ 2,749,222</u>	<u>\$13,272,514</u>	<u>\$13,379,242</u>

See notes to financial statements

LIABILITIES AND NET ASSETS

	Enterprise <u>Fund</u>	Improvement <u>Bond Fund</u>	Assessment <u>District No. 2</u>	Totals (Memorandum only)	
				<u>2007</u>	<u>2006</u>
Current liabilities:					
Current portion of long-term debt (Note 6)	\$ 100,000	\$	\$	\$ 100,000	\$ 100,000
Current portion of capital lease (Note 12)	34,465			34,465	24,719
Accounts payable	6,324			6,324	8,147
Compensated absences payable	37,369			37,369	38,744
Customer deposits	<u>28,163</u>			<u>28,163</u>	<u>27,213</u>
Total current liabilities	<u>206,321</u>			<u>206,321</u>	<u>198,823</u>
Long-term debt, net of current portion (Note 6)					
Add, bond premium, net of amortization	2,795,000			2,795,000	2,895,000
	<u>28,143</u>			<u>28,143</u>	<u>30,476</u>
	2,823,143			2,823,143	2,925,476
Capital lease (Note 12)	<u>49,171</u>			<u>49,171</u>	<u>38,684</u>
	<u>2,872,314</u>			<u>2,872,314</u>	<u>2,964,160</u>
Net assets:					
Invested in capital assets, net of related debt	5,222,433			5,222,433	5,063,722
Restricted (Note 11)	766,256			766,256	932,517
Unrestricted	<u>802,566</u>			<u>802,566</u>	<u>731,686</u>
	<u>6,791,255</u>			<u>6,791,255</u>	<u>6,727,925</u>
Improvement Bond Fund:					
Bonds payable (Note 5)		495,000		495,000	515,000
Fund equity		158,402		158,402	149,644
Assessment District No. 2:					
Bonds payable (Note 9)			3,081,600	3,081,600	3,125,700
Fund deficit			<u>( 332,378)</u>	<u>( 332,378)</u>	<u>( 302,010)</u>
	<u>\$9,869,890</u>	<u>\$ 653,402</u>	<u>\$2,749,222</u>	<u>\$13,272,514</u>	<u>\$13,379,242</u>

**FORESTHILL PUBLIC UTILITY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
for the year ended June 30, 2007  
(with comparative totals for fiscal year ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Sales - residential	\$ 751,871	\$ 644,933
- business	203,883	194,780
- industrial	311	285
Service connections	11,250	26,875
Will serve	74,300	173,000
Sugar Pine surcharge	175,597	173,514
Other	<u>65,105</u>	<u>43,781</u>
Total operating revenues	<u>1,282,317</u>	<u>1,257,168</u>
Operating expenses:		
Source of supply	61,864	79,545
Pumping	7,286	6,985
Water treatment	130,025	120,343
Transmission and distribution	186,856	124,369
Customer accounts	17,440	19,586
Administrative and general	561,375	467,564
Depreciation	<u>339,976</u>	<u>323,454</u>
Total operating expenses	<u>1,304,822</u>	<u>1,141,846</u>
Operating income (loss)	<u>( 22,505)</u>	<u>115,322</u>
Non-operating income and (expense):		
Interest income	69,574	47,326
Property taxes	78,112	24,631
Interest expense	( 145,070)	( 142,079)
Assistance - Assessment District #2	( 100,000)	( 100,000)
Loss on disposal	<u>( 56)</u>	<u>-</u>
	<u>( 97,440)</u>	<u>( 170,122)</u>
Income before contributions	( 119,945)	( 54,800)
Capital contributions	<u>183,275</u>	<u>473,057</u>
Changes in net assets (carried forward)	63,330	418,257

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, 2007  
(with comparative totals for fiscal year ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
Change in net assets (brought forward)	\$ 63,330	\$ 418,257
Total net assets:		
Beginning	<u>6,727,925</u>	<u>6,309,668</u>
Ending	<u>\$6,791,255</u>	<u>\$6,727,925</u>

See notes to financial statements

**FORESTHILL PUBLIC UTILITY DISTRICT**  
**STATEMENT OF CASH FLOWS**  
for the year ended June 30, 2007  
(with comparative totals for fiscal year ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers	\$1,257,871	\$1,249,028
Payments to suppliers	( 529,636)	( 462,536)
Payments to employees	<u>( 424,953)</u>	<u>( 376,280)</u>
Net cash provided by operating activities	<u>303,282</u>	<u>410,212</u>
Cash flows from noncapital financing activities:		
Receipts from property taxes and other nonoperating income	<u>78,112</u>	<u>24,631</u>
Cash flows from capital and related financing activities:		
Capital contributions	183,275	473,057
Purchase of capital assets	( 388,500)	( 573,180)
Interest paid on capital debt	( 145,070)	( 142,079)
Establish Reserve Fund-COP issue	( 750)	( 4,178)
Assistance to Assessment Dist. No. 2	( 100,000)	( 100,000)
Proceeds from capital leases	46,366	-
Principal payments on long-term debt	<u>( 126,132)</u>	<u>( 123,338)</u>
	<u>( 530,811)</u>	<u>( 469,718)</u>
Cash flows from investing activities:		
Interest income	<u>69,574</u>	<u>47,326</u>
Net increase (decrease) in cash and cash equivalents	( 79,843)	12,451
Cash and cash equivalents:		
Beginning of year	<u>1,157,362</u>	<u>1,144,911</u>
End of year	<u>\$1,077,519</u>	<u>\$1,157,362</u>

See notes to financial statements

**FORESTHILL PUBLIC UTILITY DISTRICT**  
**STATEMENT OF CASH FLOWS, continued**  
for the year ended June 30, 2007  
(with comparative totals for fiscal year ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$( <u>22,505</u> )	\$ <u>115,322</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	339,976	323,454
Changes in operating assets and liabilities:		
Receivables	( 24,446 )	( 7,823 )
Prepaid expense	-	28,982
Inventory	7,017	( 26,971 )
Accounts payable	( 1,823 )	( 31,568 )
Customer deposits	950	5,035
Compensated absences	( <u>1,375</u> )	( <u>1,707</u> )
	<u>325,787</u>	<u>294,890</u>
Net cash provided by operating activities	\$ <u>303,282</u>	\$ <u>410,212</u>
Supplementary information:		
Cash paid for interest	\$ <u>139,582</u>	\$ <u>142,079</u>

See notes to financial statements

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

1. Organization:

The Foresthill Public Utility District was formed and operates under The Public Utility District Act. The Act confers upon the District the rights and powers to fix rates and charges for commodities or services furnished, to incur indebtedness and issue bonds or other obligations and, under certain circumstances, to levy and collect advalorem property taxes. The District is exempt from payment of federal and state taxes on income.

2. Summary of Significant Accounting Policies:

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

Basis of Accounting

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

Fund Accounting

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

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

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

2. Summary of Significant Accounting Policies, continued:

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

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

Inventories

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

Depreciation

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

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

Statement of Cash Flows

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

Investments

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

Compensated Absences

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

Budget and Budgetary Accounting

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

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

2. Summary of Significant Accounting Policies, continued:

Total Columns

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

Use of Estimates

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

Bond Premium and Issuance Costs

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

3. Cash and Investments:

Cash and investments consist of the following at June 30, 2007:

Unrestricted	\$ 550,926
Restricted	<u>526,593</u>
Total cash and investments	<u>\$1,077,519</u>

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

3. Cash and Investments (continued):

Deposits:

At year-end the carrying amount of the District's deposits was \$12,640 and the bank balance was \$51,986. All of the bank balance was covered by Federal depository insurance.

	<u>Balance, June 30, 2007</u>
Checking	\$ 12,365
Other deposits	25
Cash on hand	<u>250</u>
Total deposits	<u>\$ 12,640</u>

Investments:

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

	<u>Carrying Amount</u>	<u>Market Value</u>
Balance, June 30, 2007,		
Local Agency Investment Fund	<u>\$1,064,879</u>	<u>\$1,064,879</u>

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

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

3. Cash and Investments (continued):

Restricted investments:

The District sets aside funds for future plant improvements. At June 30, 2007, the District had set aside the following in investments for special purposes:

	<u>Balance, June 30, 2007</u>
Future filtration benefit reserve	\$ 126,340
Capital reserve	<u>400,253</u>
Total restricted investments	<u>\$ 526,593</u>

4. Water Utility Plant:

At June 30, 2007 the District's investment in plant consists of:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 36,568	\$ -
Source of supply	2,630,510	308,783
Pumping plant	20,962	19,328
Water treatment	1,125,583	859,505
Transmission and distribution	7,715,073	2,405,583
General plant	<u>746,717</u>	<u>481,145</u>
	<u>\$12,275,413</u>	<u>\$ 4,074,344</u>

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

5. Bond Issue:

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

	<u>Principal</u>
2008	\$ 25,000
2009-10	50,000
2011-13	85,000
2014-18	165,000
2019-22	<u>170,000</u>
	<u>\$ 495,000</u>

6. Long-term Debt:

On October 1, 2003, the District issued Certificates of Participation – 2003 Series QQ (COP’s) for \$3,195,000 to the CSDA Finance Corporation. Proceeds from these Certificates were used to purchase the Sugar Pine Dam and Reservoir (including associated water rights) from the United States Bureau of Reclamation. The Certificates are secured by a lien on the District’s net revenues. Interest rates range from 1.05% to 3.75% on annual \$100,000 principal payments through 2014. Thereafter, through maturity, interest rates range from 5% to 5 ¼%. The District maintains a reserve fund with a Trustee equal to the maximum annual installment payable in a Certificate year. Interest is payable on May 1 and November 1 of each year.

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

6. Long-term Debt, continued:

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

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/1/08	\$ 100,000	\$ 66,819	\$ 166,819
5/1/09	-	66,819	66,819
11/1/09	100,000	65,769	165,769
5/1/10	-	65,769	65,769
11/1/10	100,000	64,544	164,544
5/1/11	-	64,544	64,544
11/1/11	100,000	63,169	163,169
5/1/12	-	63,169	63,169
11/1/12	100,000	61,619	161,619
5/1/13	-	61,619	61,619
11/1/12 through 5/1/28	<u>2,395,000</u>	<u>1,252,418</u>	<u>3,647,418</u>
	<u>\$2,895,000</u>	<u>\$1,896,258</u>	<u>\$4,791,258</u>

7. Retirement Plan:

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

A. Plan Description

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

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

7. Retirement Plan:

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, 2007 to June 30, 2008, has been determined by an actuarial valuation of the plan as of June 30, 2005.

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, 2007 the District paid total contributions of \$84,810.

**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**  
**NOTES TO FINANCIAL STATEMENTS, continued**

7. Retirement Plan, continued:

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

Valuation Date	June 30, 2005
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 Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

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

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

7. Retirement Plan, continued:

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

**Risk Pool's History of Funded Status and Funding Progress**

<u>Valuation Date</u>	<u>Accrued Liabilities</u>	<u>Actuarial Assets</u>	<u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL As a % of Payroll</u>
June 30, 2003	\$335,029,580	\$270,886,705	\$64,142,875	80.9%	\$ 75,357,937	85.1%
June 30, 2004	\$426,958,282	\$334,956,019	\$92,002,263	78.5%	\$ 90,667,029	101.5%
June 30, 2005	\$499,323,280	\$405,480,805	\$93,842,475	81.2%	\$108,618,321	86.4%

8. Section 457 Plan:

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

9. Water System Assessment District No. 2:

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.

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

9. Water System Assessment District No. 2, continued:

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

<u>Date</u>	<u>Principal</u>	<u>Interest</u>
9-2-07	\$ 18,900	\$ 29,959
3-2-08	-	29,499
9-2-08	19,800	29,499
3-2-09	-	29,016
9-2-09	20,800	29,016
3-2-10	-	28,509
9-2-10	21,800	28,509
3-2-11	-	27,978
9-2-11	22,900	27,978
3-2-12	-	27,419
9-2-12 through		
9-2-36	<u>1,124,900</u>	<u>849,692</u>
	<u>\$1,229,100</u>	<u>\$1,137,074</u>

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

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

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

<u>Date</u>	<u>Principal</u>	<u>Interest</u>
9-2-07	\$ 27,400	\$ 43,997
3-2-08	-	43,346
9-2-08	28,700	43,346
3-2-09	-	42,665
9-2-09	30,000	42,665
3-2-10	-	41,952
9-2-10	31,500	41,952
3-2-11	-	41,204
9-2-11	33,000	41,204
3-2-12	-	40,420
9-2-12 through 9-2-37	<u>1,701,900</u>	<u>1,256,939</u>
	<u>\$1,852,500</u>	<u>\$ 1,679,690</u>

10. Risk of Loss:

Foresthill Public Utility District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2007 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

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

11. Restricted Net Assets:

Reserves at June 30, 2007 consist of:

Capital improvement reserve	\$ 400,253
Future filtration benefit reserve	126,340
Sugar Pine Reserve	<u>239,663</u>
	<u>\$ 766,256</u>

12. Capital Leases:

The District entered into three capital lease agreements to finance the purchase of a dump truck, a utility bed truck, and two Chevy trucks. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

The capitalized value of the trucks subject to the capital lease is \$144,908.

Minimum future lease payments under capital leases as of June 30, 2007 are:

2008	\$38,727
2009	30,153
2010	<u>22,143</u>
Total payments	91,023
Less, amount representing interest	<u>7,387</u>
Present value of net minimum lease payments	<u>\$83,636</u>

## **SUPPLEMENTAL DATA**

**ROBERT  
W.  
JOHNSON**

**An Accountancy Corporation  
Certified Public Accountant**

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

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

We have audited the financial statements of Foresthill Public Utility District (the “District”), as of and for the year ended June 30, 2007, and have issued our report thereon dated October 10, 2007. 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 the 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 10, 2007.

This report is intended solely for the information and use of management, the audit committee and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Robert W. Johnson, An Accountancy Corporation*

Robert W. Johnson, An Accountancy Corporation  
October 10, 2007

**FORESTHILL PUBLIC UTILITY DISTRICT  
PRINCIPAL OFFICIALS**

**Board of Directors**

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

**Operations**

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

**FORESTHILL PUBLIC UTILITY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS – BUDGET AND ACTUAL**  
for the year ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
Operating revenues:			
Sales - residential	\$ 723,184	\$ 751,871	\$ 28,687
- business	207,880	203,883	( 3,997)
- industrial	300	311	11
Other	<u>247,000</u>	<u>326,252</u>	<u>79,252</u>
Total operating revenues	<u>1,178,364</u>	<u>1,282,317</u>	<u>103,953</u>
Operating expenses:			
Source of supply	55,053	61,864	( 6,811)
Pumping	7,450	7,286	164
Water treatment	126,692	130,025	( 3,333)
Transmission and distribution	154,608	186,856	( 32,248)
Customer accounts	16,300	17,440	( 1,140)
Administrative and general	551,433	561,375	( 9,942)
Depreciation	<u>103,035</u>	<u>339,976</u>	<u>( 236,941)</u>
Total operating expenses	<u>1,014,571</u>	<u>1,304,822</u>	<u>( 290,251)</u>
Operating income (loss)	<u>163,793</u>	<u>( 22,505)</u>	<u>( 186,298)</u>
Non-operating income and (expense):			
Interest income	620	69,574	68,954
Property taxes	70,000	78,112	8,112
Interest expense	( 234,413)	( 145,070)	89,343
Assistance - Assessment District #2	-	( 100,000)	( 100,000)
Other	<u>-</u>	<u>( 56)</u>	<u>( 56)</u>
Total non-operating income and (expense)	<u>( 163,793)</u>	<u>( 97,440)</u>	<u>66,353</u>
Income before contributions	-	( 119,945)	( 119,945)
Capital contributions	<u>-</u>	<u>183,275</u>	<u>183,275</u>
Change in net assets	<u>\$ -</u>	<u>\$ 63,330</u>	<u>\$ 63,330</u>

**FORESTHILL PUBLIC UTILITY DISTRICT  
OPERATING EXPENSES**

for the year ended June 30, 2007

Source of Supply:

Restoration payments	\$ 20,480	
Supervision and labor	2,921	
Maintenance	5,688	
Vehicle expense	595	
Power	3,314	
Inspection and water rights	<u>28,866</u>	
		\$ <u>61,864</u>

Pumping:

Power	6,836	
Vehicle expense	450	
Maintenance	<u>-</u>	
		<u>7,286</u>

Water treatment:

Supervision and labor	64,247	
Maintenance	37,290	
Chemical and analysis	14,561	
Vehicle expense	3,903	
Power	<u>10,024</u>	
		<u>130,025</u>

Transmission and Distribution:

Supervision and labor	154,296	
Maintenance	21,045	
Vehicle expense	<u>11,515</u>	
		<u>186,856</u>

Customer Accounts:

Supervision and labor	16,250	
Maintenance	-	
Vehicle expense	<u>1,190</u>	
		<u>17,440</u>

**FORESTHILL PUBLIC UTILITY DISTRICT**  
**OPERATING EXPENSES, continued**  
for the year ended June 30, 2007

Administrative and General:

Salaries	\$ 211,537	
Legal services	6,535	
Collection charges	2,307	
Accounting	6,325	
Vehicle Expense	980	
Liability insurance	28,816	
Office expense	28,462	
Employee benefits and payroll taxes	223,663	
Seminars and travel	5,975	
Utilities	5,554	
Engineering services	2,449	
Maintenance	2,195	
Dues and subscriptions	7,453	
Computer services	9,565	
Uniforms	3,483	
Public information program	5,064	
Educational expense	684	
Election expense	4,778	
Board remuneration	<u>5,550</u>	<u>\$ 561,375</u>

Depreciation 339,976

Total operating expenses \$1,304,822