

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT



For the Fiscal Years Ended June 30, 2008 and 2007

EGAN & EGAN  
Certified Public Accountants

**FOOTHILL MUNICIPAL WATER DISTRICT**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED  
JUNE 30, 2008 AND 2007**

**FOOTHILL MUNICIPAL WATER DISTRICT  
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JUNE 30, 2008 AND 2007**

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FOOTHILL MUNICIPAL WATER DISTRICT  
BOARD OF DIRECTORS AND DISTRICT MANAGEMENT PERSONNEL  
JUNE 30, 2008 AND 2007

BOARD OF DIRECTORS

<u>NAME</u>	<u>DIVISION</u>
Robert J. Gomperz	1
Mel Matthews	2
LaDrena D. Dansby	3
Richard W. Atwater	4
Dean V. Wiberg	5

MANAGEMENT PERSONNEL

Nina Jazmadarian	General Manager
Karen Oblak	Treasurer
Robert Steward	Operations Manager

**FOOTHILL MUNICIPAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008 AND 2007**

Our discussion and analysis of the financial performance of the Foothill Municipal Water District (the "District") provides an overview of the District's financial activities for the fiscal year ended June 30, 2008 and 2007. Please read it in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

**June 30, 2008**

- Water sales revenues of \$8,150,549 increased 1.9% as compared to the prior year. The prior sales year of 12,572 acre feet compares to this year's sales of 12,331 acre feet. Water demands decreased slightly as increased water conservation was requested due to dry conditions and a ruling by a Federal judge that restricted pumping in the Delta thereby reducing supplies. Although water rates increased, water revenues increased only slightly. This decrease was because water was sold from the Foothill Conjunctive Use Program at rates in effect in 1993 and 1994 when the water was stored in the groundwater basin.
- Operating expenses, not including depreciation, of \$7,806,777, decreased approximately 2.5% over the prior year due to reduced power costs because of reduced pumping. Instead, agencies produced water from the FHCUP and purchased that water from Foothill at rates in effect in 1993 and 1994. Additionally, reduced costs associated with elections for directors reduced operating expenses. Purchased water decreased due to a call for voluntary conservation due to dry conditions and a ruling by a Federal judge that restricted pumping in the Delta thereby impacting supplies.
- The District's net assets increased \$1,097,200 or 17.3%.

**June 30, 2007**

- Water sales revenues of \$8,000,482 increased 28.5% as compared to the prior year. The prior sales year of 10,601 acre feet compares to this year's sales of 12,572 acre feet. Water demand increased due to the lack of rainfall. Water revenues increased due to higher sales and higher water rates.
- Operating expenses, not including depreciation, of \$8,004,328, increased approximately 20% over the prior year due to higher purchased water costs. Purchased water increased due to the increase in water sales.
- The District's net assets increased \$414,730 or 7.0%.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The District's annual report consists of three parts: Management's Discussion and Analysis, Financial Statements and Supplementary Information. The Financial Statement section includes notes that discuss information in the financial statements with more detail and are an integral part of the Financial Statements.

**FOOTHILL MUNICIPAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008 AND 2007**

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the District provide information about the District using accounting methods similar to those used in private industry. The Statements of Net Assets provide a snapshot of the District's current and long-term assets (resources) and liabilities (obligations) for the end of the District's fiscal years of June 30, 2008 and 2007. The Statements of Revenues, Expenses and Changes in Net Assets provide information on the District's financial activity during the years ended June 30, 2008 and 2007. These statements provide a summary of the District's revenues generated from water sales and other user fees and expenses associated with providing services to the District's customers. The Statements of Cash Flows show information about the District's sources of cash, such as customer receipts and uses of cash, such as operating expenses.

**CONDENSED FINANCIAL INFORMATION**

The following condensed financial information provides an overview of the District's financial activities for the year ended June 30, 2008 and 2007.

**NET ASSETS**

	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>Dollar Change</u></b>
<b>ASSETS</b>			
Current and other assets	\$ 4,664,983	3,983,572	681,411
Capital assets, net of depreciation	4,395,610	3,599,220	796,390
Total assets	<u>\$ 9,060,593</u>	<u>7,582,792</u>	<u>1,477,801</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 1,619,831	1,239,329	380,502
Total liabilities	<u>1,619,831</u>	<u>1,239,329</u>	<u>380,502</u>
Invested in capital assets	4,395,610	3,599,220	796,390
Unrestricted net assets	<u>3,045,152</u>	<u>2,744,243</u>	<u>300,909</u>
Total net assets	<u>\$ 7,440,762</u>	<u>6,343,463</u>	<u>1,097,299</u>

Net assets – Unrestricted net assets increased from the prior year due primarily to work performed for others. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**FOOTHILL MUNICIPAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008 AND 2007**

**CHANGES IN NET ASSETS**

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>
Total operating revenues	\$ 8,150,549	\$ 8,000,482	150,067
Total non-operating revenues	<u>955,936</u>	<u>576,976</u>	<u>378,960</u>
Total revenues	<u>9,106,485</u>	<u>8,577,458</u>	<u>529,027</u>
Depreciation expense	202,409	158,400	44,009
Operating expenses	<u>7,806,777</u>	<u>8,004,328</u>	<u>(197,551)</u>
Total expenses	<u>8,009,186</u>	<u>8,162,728</u>	<u>(153,542)</u>
Change in net assets	1,097,299	414,730	<u>682,569</u>
Net assets, beginning of year	<u>6,343,463</u>	<u>5,928,733</u>	
Net assets, end of year	<u>\$ 7,440,762</u>	<u>\$ 6,343,463</u>	

**Revenues** – Water usage decreased 1.90% over 2007 to 12,330.8 acre-feet and total operating revenues increased 1.9% over 2007. The net increase is attributed primarily to water purchased by member agencies. For 2008, the primary source of the District's non-operating revenues is interest earned on its investments and for work performed for others. The amount of the District's investments at year end was \$2,729,942 and \$2,711,484 in 2008 and 2007, respectively. The increase is attributed to the increase in net assets primarily received for work performed for others.

**Expenses** – The District's operating expenses decreased, before depreciation, due primarily to the decrease in power costs as less water was pumped into the service area due to FHCUP sales currently estimated at 1,660 acre-feet. These sales are from water placed into the groundwater basin in the summer of 1994. The water was produced by participating Foothill retail agencies and purchased from Metropolitan at the rates in effect in fiscal years 1993-94 and 1994-95. A final reconciliation of the amount of these sales will be performed in November 2008. Additionally, there was a reduction in election costs for directors since no elections were held in the fiscal year.

**BUDGET ANALYSIS AND VARIANCES**

June 30, 2008

- Sales – The District had a sales year of 12,330.8 acre feet at an average price of \$666. Actual sales were higher than the adjusted budget. Three of the retail agencies produced approximately 1,660 acre-feet of water from the FHCUP when Metropolitan asked that the water be produced. This water was sold at the rate when water was placed into storage of \$334 -\$356 per acre-foot.

FOOTHILL MUNICIPAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008 AND 2007

BUDGET ANALYSIS AND VARIANCES (continued)

- Interest Income. Additional amounts were invested which generated additional interest income.
- Purchased water – Actual acre foot cost is less than budget due to the purchase of FHCUP water, as stated above. In addition, 125 acre feet were budgeted for purchase at the higher Tier 2 charges. (Metropolitan Water District has a two-tiered price structure to encourage local water agencies to efficiently use all local supplies and to continue to invest in cost-effective conservation and additional local resources.) There were 639 acre-feet of Tier 2 purchases.
- Purchased Power – Power costs were lower than the amount budgeted due to the reduction in the amount of water pumped into the service area as imported water demands were met through the production of the FHCUP water by retail agencies using their wells. Less power was necessary to pump the water sold.
- Wages – Maintenance labor was lower than budgeted as the District used outside service providers to perform some repairs and maintenance.
- Benefits – Benefits were higher than budgeted due to additional staff qualifying for the PERS benefit.
- System Maintenance – Lower costs than budgeted due to a focus on completing FHCUP capital improvement rather than maintenance on the system.
- Administrative and General – Higher costs than budgeted for wages and benefits due to the addition of an employee and hiring of new General Manager and Administrative Manager.
- Capital Improvements – Improvements to the Berkshire pumping plant of approximately \$310,000 were made. Major efforts to update the system include 2 capital projects: the FHCUP and the Master Plan.

June 30, 2007

- Sales – The District had a sales year of 12,572 acre feet at an average price of \$593. Actual sales were less than the adjusted budget. One of our agencies was able to participate in the injection water storage program (groundwater replenishment) for a total of 592.9 acre feet. Injected water is sold at a lower rate reduced by \$198-\$220 per acre foot.
- Interest Income. Interest rates increased generating additional interest income.

**FOOTHILL MUNICIPAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008 AND 2007**

**BUDGET ANALYSIS AND VARIANCES** (continued)

- Purchased water – Actual acre foot cost is less than budget due to the year round participation in the injection water storage program (groundwater replenishment) as stated above. In addition, 2,500 acre feet were budgeted for purchase at the higher Tier 2 charges. (Metropolitan Water District has a two-tiered price structure to encourage local water agencies to efficiently use all local supplies and to continue to invest in cost-effective conservation and additional local resources.) There were no Tier 2 charges.
- Purchased Power – Power costs were lower than the amount budgeted due to the reduction in the amount of water sold. Less power was necessary to pump the water sold.
- Wages – Maintenance labor was lower than budgeted as the District used outside service providers to perform some repairs and maintenance.
- Benefits – Overall, lower than budgeted due to lower maintenance salaries, thus the related PERS cost was reduced.
- System Maintenance – Higher costs than budgeted due to higher maintenance on the system due to the aging of the water system and the use of outside labor for the repairs.
- Administrative and General – Overall, no significant variance from budgeted amounts except for miscellaneous expenses due to increased General Manager expenses and increased water organization dues.
- Capital Improvements – Improvements to mains in the amount of \$76,515 were made. Major efforts to update the system include 2 capital projects: the FHCUP and the Master Plan.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**June 30, 2008**

The District added approximately \$999,000 to completed projects for the fiscal year ended June 30, 2008. The significant asset additions were to improve the Berkshire pumping plant and complete the master plan .

**Long-Term Debt**

The District had no long-term debt as of June 30, 2008.

**FOOTHILL MUNICIPAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008 AND 2007**

**June 30, 2007**

The District added approximately \$79,000 to completed projects for the fiscal year ended June 30, 2008. The significant asset additions were to replace a pump.

Long-Term Debt

The District had no long-term debt as of June 30, 2007.

CONDITIONS AFFECTING CURRENT FINANCIAL POSITION

Increasing pension contributions to PERS and the obligation for post-employment health care benefits will negatively impact the District's current and future financial position. The District's utility plant is an aging system. The plant may require significant repairs or replacement to continue providing the current level of service to its member agencies.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's accountability for the District's assets. If you have any questions about this report, or need additional financial information, contact the District's Administration Center at 4536 Hampton Road, La Cañada Flintridge, California 91011.

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WOODLAND HILLS, CALIFORNIA 91364  
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**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Foothill Municipal Water District  
La Cañada Flintridge, California

We have audited the accompanying statement of net assets of the Foothill Municipal Water District (the "District") as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. 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 audits.

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 audits provide 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 the Foothill Municipal Water District as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information presented on page 24 for the year ended June 30, 2008 is presented for purposes of additional analysis and is not required as part of the basic financial statements. Such supplementary 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.

*Egan & Egan*

August 26, 2008

**FOOTHILL MUNICIPAL WATER DISTRICT  
STATEMENTS OF NET ASSETS  
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 373,485	\$ 41,132
Temporary investments	2,729,942	2,711,484
Accounts receivable, consumer	1,004,842	750,028
Accrued interest receivable	6,000	21,051
Conjunctive use advances	469,177	359,429
Prepaid expenses	5,631	24,542
Materials and supplies	<u>75,906</u>	<u>75,906</u>
Total current assets	4,664,983	3,983,572
Utility plant, net of accumulated depreciation	<u>4,395,610</u>	<u>3,599,220</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 9,060,593</u></b>	<b><u>\$ 7,582,792</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 1,544,570	\$ 1,168,442
Accrued payroll and employee benefits	<u>75,261</u>	<u>70,887</u>
Total current liabilities	1,619,831	1,239,329
<b>Net assets</b>		
Invested in capital assets, net of related debt	4,395,610	3,599,220
Unrestricted	<u>3,045,152</u>	<u>2,744,243</u>
Total net assets	<u>7,440,762</u>	<u>6,343,463</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 9,060,593</u></b>	<b><u>\$ 7,582,792</u></b>

The accompanying notes are an integral part of the financial statements.

**FOOTHILL MUNICIPAL WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b>		
Sales for resale	\$ <u>8,150,549</u>	\$ <u>8,000,482</u>
<b>OPERATING EXPENSES</b>		
Purchased water	5,703,016	5,743,689
Purchased power	765,464	861,175
Repairs and Maintenance:		
Salaries and wages	351,833	314,382
Maintenance and service	59,478	110,817
Materials	28,799	22,079
Telemetry & communications	8,314	7,655
Utilities	22,469	29,478
Water quality monitoring	18,681	16,887
Miscellaneous	4,812	9,502
Administrative and general:		
Salaries and wages	198,148	207,656
Office supplies and insurances	121,490	80,399
Employee benefits	355,239	332,880
Pasadena license agreement	299	3,593
Directors' fees and expenses	36,443	85,346
Legal and audit services	29,846	28,140
Miscellaneous expenses	25,844	46,864
Professional services	76,602	96,041
Other operating:		
Depreciation	202,409	158,400
Loss on disposal of assets	0	7,745
Total operating expenses	<u>8,009,186</u>	<u>8,162,728</u>
Income (loss) from operations	<u>141,363</u>	<u>(162,246)</u>
<b>NON-OPERATING REVENUES</b>		
Interest income	114,007	128,191
Taxes and assessments	78,045	76,014
FHCUP reimbursement (power revenue)	4,047	13,061
Reimbursements, work performed for others	741,970	344,530
Water conservation administration	142	1,774
Other revenues	17,725	13,406
Total non-operating revenues	<u>955,936</u>	<u>576,976</u>
Change in net assets	1,097,299	414,730
Net assets, beginning of year	6,343,463	5,928,733
Net assets, end of year	<u>\$ 7,440,762</u>	<u>\$ 6,343,463</u>

The accompanying notes are an integral part of the financial statements.

**FOOTHILL MUNICIPAL WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 7,895,735	\$ 7,782,699
Cash payments to employees for services	(545,607)	(529,721)
Cash payments for services and goods	(6,861,757)	(7,148,788)
Cash from other sources	<u>654,136</u>	<u>262,142</u>
Net cash provided by operating activities	<u>1,142,507</u>	<u>366,332</u>
 <b>Cash flows from noncapital financing activities:</b>		
Taxes and assessments received	<u>78,045</u>	<u>76,014</u>
 <b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	<u>(998,799)</u>	<u>(390,286)</u>
 <b>Cash flows from investing activities:</b>		
Interest on investments	<u>129,058</u>	<u>127,286</u>
 Net increase in cash and cash equivalents	350,811	179,346
Cash and temporary investments, beginning of the year	<u>2,752,616</u>	<u>2,573,270</u>
Cash and temporary investments, end of the year	<u>\$ 3,103,427</u>	<u>\$ 2,752,616</u>
 <b>SUMMARY OF BALANCE SHEET CASH</b>		
Cash	\$ 373,485	\$ 41,132
Temporary investments	<u>2,729,942</u>	<u>2,711,484</u>
	<u>\$ 3,103,427</u>	<u>\$ 2,752,616</u>

The accompanying notes are an integral part of the financial statements.

**FOOTHILL MUNICIPAL WATER DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2008 AND 2007**

<b>Reconciliation of loss to net cash provided by operating activities:</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Income (loss) from operations	\$ 141,363	\$ (162,246)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	202,409	158,400
Loss on disposal of assets	0	7,745
Income from other sources	21,914	28,241
Income from work performed for others	741,970	344,530
Changes in assets and liabilities:		
Decrease (increase) in:		
Customer accounts receivable	(254,814)	(217,783)
Other receivables	(109,748)	(110,629)
Prepaid expenses and materials and supplies	18,911	(5,819)
Conjunctive use advances		
Increase (decrease) in:		
Accounts payable and accrued expenses	376,128	331,576
Accrued payroll and employee benefits	<u>4,374</u>	<u>(7,683)</u>
Net cash provided by operating activities	<u>\$ 1,142,507</u>	<u>\$ 366,332</u>

The accompanying notes are an integral part of the financial statements.

FOOTHILL MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 1. Organization and Summary of Significant Accounting Policies

**Organization**

The Foothill Municipal Water (the "District") was formed on January 7, 1952 under section 71000 of the Water Code of the State of California. The District supplies water to seven water agencies operating in the communities of Altadena, La Cañada Flintridge and La Crescenta, California.

The District is governed by its Board of Directors.

**Reporting Entity**

The District has defined its reporting entity in accordance with the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*. These standards provide guidance for determining which governmental activities, organizations and functions should be included in the reporting entity and how information about them should be presented. The criteria for inclusion of a governmental unit in a governmental reporting entity are: 1) financial interdependency, 2) selection of governing authority, 3) designation of management, 4) ability to significantly influence operations, and 5) accountability for fiscal matters.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental enterprise funds. The District applies Governmental Accounting Standards Board ("GASB") pronouncements and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The more significant policies reflected in the financial statements are summarized as follows:

a. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, retained earnings, revenues and expenses. The District has one fund, which is presented in the accompanying financial statement as a Proprietary Fund category, Enterprise Fund type.

b. Basis of Accounting

The District uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred. Unbilled receivables are not reflected in the accompanying financial statements because the amounts are not material.

FOOTHILL MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

b. Basis of Accounting, continued

The District is required to apply the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" (GASB 34) for periods beginning after June 15, 2003. GASB 34 requires, among other things, that the difference between assets and liabilities be reported as net assets, not equity; that a Management's Discussion and Analysis ("M, D & A") section precede the basic financial statements, that the statements of cash flows use the direct method, and that utility plant assets be capitalized and depreciated over their useful lives. As the District has historically capitalized its assets and recorded depreciation, the only significant changes made in order to comply with the requirements were the M, D & A section and the reporting of the details of net assets.

In conjunction with the adoption of GASB 34, the District has also adopted the provisions of GASB No 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus", and GASB No. 38, "Certain Financial Statement Note Disclosures."

c. Utility Plant

Utility plant is stated at cost. The District capitalizes applicable overhead costs in connection with self-constructed assets. Depreciation of all exhaustible utility plant is charged as an expense in the accompanying statements of income. Depreciation is provided over the estimated useful lives of the asset using the straight-line method. Estimated useful lives are as follows:

Water system	5 to 60 years
Autos and trucks	4 years
Office equipment	4 to 10 years
Office and production facilities	30 to 40 years

The District has evaluated its utility plant. No impairment of values was determined to exist.

d. Uncollectible Accounts

The District's management estimates that accounts receivable are collectible.

e. Cash and Cash Equivalents

The District defines cash and cash equivalents as demand account balances and cash on hand.

The District invests cash in excess of its operating requirements primarily with the State Treasurer's Local Agency Investment Fund (LAIF) and in Federal Home Loan Bank Board bonds.

FOOTHILL MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

f. Investments

All investments are stated at fair value as required by GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Fair value is based on market price or contract amount.

g. Materials and Supplies

Materials and supplies are stated at cost and consist of expendable supplies held for consumption or future additions to Utility Plant.

h. Construction in Progress

Construction in progress consists of costs related to capital projects started during one fiscal year and completed in a subsequent year. Upon completion, construction in progress is included in utility plant.

i. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 could differ from those estimates.

j. Budgetary Process

Each year, the District adopts a budget which provides for its general operations. Budgets are prepared on the accrual basis of accounting. The District follows these procedures in establishing the budget for the fiscal year:

- i. Formal budgetary integration is employed as a management control device during the year for the General Activity.
- ii. The Board approves the total budget for the year for the General Activity. The Board is authorized to make any budget adjustments during the year.
- iii. Unused appropriations lapse at the end of the year unless extended into the subsequent year by a vote of the Board of Directors.

k. Income Taxes

The District is exempt from income taxes under provisions of the Internal Revenue Code and related California statutes; accordingly, no provision for income taxes is required.

FOOTHILL MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

I. Compensated Absences

It is the District's policy to permit employees to accumulate paid time off for either vacation or illness in accordance with the terms expressed in its employee handbook. Upon termination, retirement or death of an employee, the District pays eligible accrued time in a lump-sum payment to the employee or beneficiary. Accumulated paid time off is recorded as an expense and a liability at the time the benefit is earned.

m. Property Tax Revenues

Property tax revenues are recognized as income as it is earned.

The County of Los Angeles Assessor's Office assesses all real and personal property within the County each year. The County of Los Angeles Tax Collector's Office bills and collects the District's share of property taxes and assessments. Property taxes are collected only on voter created Improvement Districts within the District's service area. The County of Los Angeles Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations within the Improvement District.

The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

n. Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

NOTE 2. Cash Deposits and Investments

The District is permitted by State law and Board policy to invest in obligations deemed prudent. Such investments include interest bearing savings accounts, collateralized certificates of deposit, direct obligations of the United States Government and various federal agencies, approved money market funds and investment agreements, and various other approved investments. As mandated by state law, the District annually adopts its investment policy that defines allowable investments, restrictions on investment concentrations and maximum maturity periods, and other specific investment-related policies. The District has an agreement with an investment advisor and given him authorization to make trades on the District's behalf, following the above guidelines.

The District's cash deposits at June 30, 2008 were entirely covered by Federal depository insurance or by pledged collateral pools of either U.S. Government securities or mortgages. California Government Code requires California banks and savings and loan associations to secure a local agency's deposits by pledging 110% of government securities as collateral. California law also allows financial institutions to secure local agency deposits by pledging first

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trust deed mortgage notes having a value of 150% of a local agency's total deposits. Such collateral, however, is not held specifically in the name of the District.

Investments of governmental agencies, in accordance with GASB No. 3, are classified in three categories to give an indication of the level of custodial risk assumed by the entity. Category 1 consists of investments that are insured or collateralized with securities held by the District or its agent in the District's name. Category 2 includes investments collateralized with securities held by the pledging institution's trust department or by its agent in the District's name. Category 3 consists of investments collateralized with securities held by the pledging institution, or by its trust department or agent, but not in the District's name.

Cash and investments consist of the following:

	2008			
	Category			Total
	1	2	3	
Pooled cash	\$ 1,729,942	-	-	1,729,942
Interest bearing	-	-	-	-
Demand accounts	373,485	-	-	373,485
US Treasury securities	-	-	-	-
Federal agency securities	-	-	1,000,000	1,000,000
<b>Total cash and investments</b>	<b>\$ 2,103,427</b>	<b>-</b>	<b>1,000,000</b>	<b>3,103,427</b>

	2007			
	Category			Total
	1	2	3	
Pooled cash	\$ 1,711,484	-	-	1,711,484
Interest bearing	-	-	-	-
Demand accounts	41,132	-	-	41,132
US Treasury securities	-	-	-	-
Federal agency securities	-	-	1,000,000	1,000,000
<b>Total cash and investments</b>	<b>\$ 1,752,616</b>	<b>-</b>	<b>1,000,000</b>	<b>2,752,616</b>

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**NOTE 3. Capital Assets**

Capital asset activity for the years ended June 30, 2008 and 2007 was as follows:

<b>2008</b>				
	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>GENERAL PLANT</b>				
Land	\$ 7,814			\$ 7,814
Buildings and structures	84,734			84,734
Office equipment	37,130			37,130
Transportation equipment	97,201	24,841		122,042
Telemetry and communications equipment	176,840			176,840
General equipment	323,414			323,414
	<u>727,133</u>	<u>24,841</u>	<u>-</u>	<u>751,974</u>
<b>OPERATING PLANT</b>				
Land and improvements	\$ 411,184			411,184
Pumping plant	1,182,601	310,927		1,493,528
Reservoirs	2,460,103			2,460,103
Mains	1,399,734			1,399,734
Connections	421,301			421,301
Operations center	248,449	167,003		415,452
Construction in process	451,652	496,028		947,680
	<u>6,575,024</u>	<u>973,958</u>		<u>7,548,982</u>
	<u>7,302,157</u>	<u>998,799</u>		<u>8,300,956</u>
Less accumulated depreciation	<u>3,702,937</u>	<u>202,409</u>		<u>3,905,346</u>
Total capital assets	<u>\$ 3,599,220</u>	<u>796,390</u>		<u>\$ 4,395,610</u>

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**NOTE 3. Capital Assets, continued**

<b>2007</b>				
	Balance July 1, 2006	Additions	Transfers	Balance June 30, 2007
<b>GENERAL PLANT</b>				
Land	\$ 7,814			\$ 7,814
Buildings and structures	84,734			84,734
Office equipment	57,490		20,360	37,130
Transportation equipment	97,201			97,201
Telemetry and communications equipment	176,840			176,840
General equipment	323,414			323,414
	747,493		20,360	727,133
<b>OPERATING PLANT</b>				
Land and improvements	\$ 411,184			411,184
Pumping plant	1,192,658	24,341	34,398	1,182,601
Reservoirs	2,447,253	32,562	19,712	2,460,103
Mains	1,398,655	2,221	1,142	1,399,734
Connections	417,274	4,630	603	421,301
Operations center	240,394	15,280	7,225	248,449
Construction in process	116,059	335,593		451,652
	6,223,477	414,627	63,080	6,575,024
	6,970,970	414,627	63,080	7,302,157
Less accumulated	3,595,891	158,400	51,354	3,702,937
Total capital assets	\$ 3,375,079	256,227	32,086	\$ 3,599,220

**NOTE 4 - Compensated Absences**

Compensated absences payable as of June 30 consist of the following:

	<b>2008</b>	<b>2007</b>
Accrued sick leave	\$ 39,155	37,365
Accrued vacation	36,106	33,522
	\$ 75,261	70,887

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NOTE 5 - Conjunctive Use Advances

The District coordinates engineering facility studies and demonstration projects aimed at optimizing conjunctive use of local groundwater basins. Pursuant to its agreement executed February 11, 2003, the District is building groundwater storage facilities. These facilities will be used by Metropolitan Water District ("MWD") to store water for future delivery. MWD will pay the cost to build the facility based upon pre-approved engineering and construction budgets up to a maximum construction cost of \$1.7 million. These facilities will entitle MWD to store a minimum of 2,250 acre feet per year and extract 3,000 acre feet per year in the event of a dry year.

The District must complete construction by October 31, 2008. Any costs incurred over the approved MWD budget amount are the responsibility of the District. As of June 30, 2008, the District is not over budget on any approved amount.

NOTE 6 - Retirement Plan

Plan Description

The District contributes to the State of California Public Employees Retirement System ("PERS"), an agent multi-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by statute and city ordinance. Copies of PERS' annual financial report may be obtained from their offices located at 400 P Street, Sacramento, CA 95814.

Funding Policy

The contribution rate for participants is 7.6% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for fiscal years 2008 and 2007 were 30.107% and 35.212%, respectively. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost

For fiscal year 2008, the District's annual pension cost was \$178,657 and \$197,335 for PERS and was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expense), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost of living adjustments to 14.45% depending on age. Both (a) and (b) included an inflation component of 3.00% and a payroll growth rate of 3.25%. The actuarial value

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of PERS assets were determined using techniques that smooth the effects of short-term volatility in the market value of investment over a three-year period (smoothed market value). Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period.

Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. 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.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The District presents the most recent available three-year Annual Pension Cost (APC) information for the plan, along with required supplementary information as follows:

Valuation Date	000's omitted		PERS Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UL as a % of Payroll
	Accrued Liabilities	Actuarial Assets				
06/30/06	\$2,754,397	\$2,492,226	\$262,171	90.5%	\$699,898	37.5%
06/30/05	\$2,891,461	\$2,588,713	\$302,748	89.5%	\$755,047	40.1%
06/30/04	\$2,746,096	\$2,460,945	\$285,151	89.6%	\$743,692	38.3%

**NOTE 7 – Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2008, the District participated in the liability and property programs of the ACWA/JPIA as follows:

General and auto liability: The District has a zero deductible for general and auto liability. The District purchased additional excess coverage layers: \$30 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

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Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.

Property loss is paid based on the replacement cost for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of \$10 million per occurrence it is subject to a \$2,500 deductible per occurrence.

Boiler and machinery coverage for the replacement cost up to \$10 million per occurrence, subject to various deductibles depending on the type of equipment.

Public officials' liability coverage up to \$100,000 for each occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies is subject to the terms, with a deductible of \$1,000 per claim.

Workers' compensation insurance provides coverage up to California statutory limit of \$2 million for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the three preceding years. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as June 30, 2008 and 2007.

To date, the District and its counsel are not aware of any material claims incurred through the period June 30, 2008 regarding these insurance plans.

**NOTE 8. Net Assets**

GASB 34 requires that the difference between assets and liabilities be reported as net assets, not equity. Net assets are classified as either restricted, unrestricted or invested in capital assets, net of debt.

Net assets that are invested in capital assets, net of debt consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition or construction of those assets. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of debt." Unlike the restricted net assets, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net assets. The Board may at any time change or eliminate amounts established for these purposes.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 9 - Governmental Accounting Standards Board Statements Issued, Not Yet Effective

**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*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective until December 31, 2009. It is expected that the present value for the benefit obligation will have a material impact on the District's financial statements.

The District has elected to provide post-employment health benefits to certain retirees and their beneficiaries. The District pays the full cost of the coverage for these benefits. Also, retirees can purchase coverage for their dependents at the District's group rates. Currently, four retirees are eligible for post-employment health benefits. For the year ended June 30, 2008, the District made payments for post employment health benefit premiums of approximately \$26,000.

NOTE 10 - Contingencies

The District has a firm commitment to purchase a minimum of 10,996 acre feet of water per year from the Metropolitan Water District for a term of ten years, expiring December 31, 2012 at Metropolitan's Tier 1 rates. The amount is based on 90 percent of the District's prior ten-year average purchased water of 12,218 acre feet.

The District leases certain office equipment under an operating lease which requires 36 monthly payments of \$319.

**SUPPLEMENTARY INFORMATION**

**FOOTHILL MUNICIPAL WATER DISTRICT  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL  
YEARS ENDED JUNE 30, 2006 AND 2007**

	2006			2007		
	BUDGET	ACTUAL	VARIANCE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE (UNFAVORABLE)
<b>OPERATING REVENUES</b>						
Sales for resale	\$ 8,295,700	\$ 8,150,549	\$ (145,151)	\$ 8,045,400	\$ 8,000,482	\$ (44,918)
<b>OPERATING EXPENSES</b>						
Purchased water	5,980,900	5,703,016	277,884	5,898,700	5,743,689	95,011
Purchased power	843,800	765,484	78,336	878,800	881,175	17,625
Repairs and Maintenance:						
Salaries and wages	350,000	351,833	(1,833)	377,600	314,382	63,218
Maintenance and service	110,000	58,478	50,522	80,100	110,817	(30,717)
Materials	38,300	28,799	9,501	30,600	22,079	8,521
Telemetry & communications	8,000	8,314	(314)	10,200	7,655	2,545
Utilities	32,000	22,489	9,511	22,900	29,478	(6,578)
Water quality monitoring	19,500	18,681	819	21,800	16,887	4,913
Miscellaneous	10,000	4,812	5,188	7,700	9,502	(1,802)
Administrative and General:						
Salaries and wages	165,000	198,148	(33,148)	247,000	207,656	39,344
Office supplies and insurance	131,000	121,490	9,510	96,900	80,399	16,501
Employee benefits	315,000	355,239	(40,239)	345,200	332,880	12,320
Pasadena license agreement	3,600	299	3,301	3,600	3,593	7
Directors' fees and expenses	30,000	36,443	(6,443)	74,700	85,346	(10,646)
Legal, audit services	29,400	29,846	(446)	29,900	28,140	1,760
Miscellaneous expenses	55,700	25,844	29,856	62,000	46,864	15,136
Professional services	76,000	76,602	(602)	50,000	96,041	(46,041)
Other operating:						
Depreciation		202,409	(202,409)		158,400	(158,400)
Loss on disposal of assets					7,745	(7,745)
Total operating expenses	<u>8,188,200</u>	<u>8,009,186</u>	<u>189,014</u>	<u>8,177,700</u>	<u>8,162,726</u>	<u>14,972</u>
<b>NON-OPERATING REVENUES</b>						
Interest income	110,000	114,007	4,007	100,000	128,191	28,191
Taxes and assessments	70,000	78,045	8,045	35,000	76,014	41,014
FHCUP reimbursement (power)	5,000	4,047	(953)	76,000	13,061	(62,939)
FHCUP reimbursement	1,300,000	741,970	(558,030)	500,000	344,530	(155,470)
Water conservation administration		142	142	1,000	1,774	774
Other revenues		17,725	17,725		13,406	13,406
Total non-operating revenues	<u>1,485,000</u>	<u>955,936</u>	<u>(529,064)</u>	<u>712,000</u>	<u>576,976</u>	<u>(135,024)</u>
Funding for (from) reserves	\$ 1,582,500	\$ 1,097,299	\$ (485,201)	\$ 579,700	\$ 414,730	\$ (164,970)