

FOOTHILL MUNICIPAL WATER DISTRICT

BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

**FOOTHILL MUNICIPAL WATER DISTRICT
FINANCIAL STATEMENTS**

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Foothill Municipal Water District (District), as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Foothill Municipal Water District as of June 30, 2011, and the respective changes in financial position and cash flows, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 59, *Financial Instruments Omnibus*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2011, on our consideration of the Foothill Municipal Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
December 1, 2011

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Foothill Municipal Water District (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 Canada Flintridge, and La Crescenta, California. The District is governed by its Board of Directors.

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.

B. Method of 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.

The District uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred.

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 (MD&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 MD&A section and the reporting of the details of net assets.

C. Proprietary Fund Accounting

The District has one fund which is considered a proprietary fund.

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows for each proprietary fund.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has opted to apply all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

C. Proprietary Fund Accounting (Continued)

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operation of the fund. All other expenses are reported as non-operating expenses.

D. Budgetary Reporting

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

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

E. Cash and Cash Equivalents

The District defines cash and cash equivalents as demand account balances (including the State Treasurer's Local Agency Investment Fund) 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).

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. 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:	January 1
Levy Date:	July 1
Due Dates:	November 1 and March 1
Collection dates:	December 10 and April 10

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

H. Materials and Supplies Inventory

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

I. Capital Assets

Utility Plant

The utility plant is stated at cost. The District capitalizes applicable overhead costs in connection with self-constructed assets. Depreciation of all exhaustible utility plant items is charged as an expense in the accompanying statement 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	50 to 60 years
Auto 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 capital assets and has determined that there has been no impairment in values as of June 30, 2011.

Construction in Progress

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

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) 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.

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.

L. 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.

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

M. Reclassifications

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

N. Comparative Data

Comparative total data for the prior fiscal year has been presented in the accompanying basic financial statements in order to provide an understanding of changes in the District's financial position and operations.

O. New Accounting Pronouncements

The District has implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 59 during the fiscal year ended June 30, 2011.

GASB Statement No. 59 – Financial Instruments Omnibus

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 59, "Financial Instruments Omnibus". This Statement is effective for financial statements for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The implementation of this Statement did not have an effect on these financial statements.

Note 2: Cash 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, investment concentrations, and maximum maturity periods, and other specific investment-related policies. The District has an agreement with an investment advisor and has given him authorization to make trades on the District's behalf, following the above guidelines.

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 2: Cash and Investments (Continued)

Classification

The cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of District debt instruments or District agreements.

	June 30, 2011	June 30, 2010
Statement of Net Assets:		
Cash and Investments	\$ 6,364,330	\$ 4,905,552
Cash and Investments consist of the following:		
Cash on Hand	\$ 2,000	\$ 2,000
Cash in Bank	1,867,381	1,420,598
Investments	4,494,949	3,482,954
Total Cash and Investments	\$ 6,364,330	\$ 4,905,552

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the Foothill Municipal Water District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Certificates of Deposits	5 years	30%	\$250,000
Negotiable Certificates of Deposit State of California Local Agency Investment Fund (State Pool)	5 years	30%	\$250,000
U.S. Treasury Bills, Notes, & Bonds	N/A	Unlimited	\$50 million
Federal Farm Credit Debt Securities	5 years	Unlimited	None

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 2: Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Carrying Amount	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More than 60 Months
State Investment							
Pool (LAIF)	\$3,500,672	\$3,500,672	\$ -	\$ -	\$ -	\$ -	\$ -
Money Market Funds	994,277	994,277					
Total	<u>\$4,494,949</u>	<u>\$4,494,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	AA	Not Rated
State Investment						
Pool (LAIF)	\$ 3,500,672	N/A	\$ -	\$ -	\$ -	\$ 3,500,672
Money Market Funds	994,277	N/A		994,277		
Total	<u>\$ 4,494,949</u>		<u>\$ -</u>	<u>\$ 994,277</u>	<u>\$ -</u>	<u>\$ 3,500,672</u>

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 2: Cash and Investments (Continued)

Concentration of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. As of June 30, 2011, there were no investments in any one issuer that violated the District's investment policy.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside 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 fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2011, there were no District's deposits with financial institutions in excess of federal depository insurance limits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government 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 investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 3: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Deletions	Transfers	Balance at June 30, 2011
Capital Assets, not being depreciated:					
Land - General Plant	\$ 7,814	\$ -	\$ -	\$ -	\$ 7,814
Land - Operating Plant	411,184				411,184
Construction in Progress	154,994	506,582		(365,841)	295,735
Total Capital Assets, not being depreciated	573,992	506,582		(365,841)	714,733
Capital Assets, being depreciated:					
Buildings and Structures	92,192				92,192
Office Equipment	53,205				53,205
Transportation Equipment	122,040				122,040
Telemetry and Communications Equipment	176,840				176,840
General Equipment	323,414			31,615	355,029
Pumping Plant	1,582,997			84,563	1,667,560
Reservoirs	2,501,731	36,060		249,663	2,787,454
Mains	1,782,599				1,782,599
Connections	427,876				427,876
FHCUP	1,686,891				1,686,891
Operations Center	415,452				415,452
Total Capital Assets, being depreciated	9,165,237	36,060		365,841	9,567,138
Less Accumulated Depreciation	(4,338,021)	(259,100)			(4,597,121)
Total Capital Assets, being depreciated, net	4,827,216	(223,040)		365,841	4,970,017
Total Capital Assets, Net	\$ 5,401,208	\$ 283,542	\$ -	\$ -	\$ 5,684,750

Note 4: 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 built groundwater storage facilities. These facilities will be used by Metropolitan Water District ("MWD") to store water for future delivery. MWD paid the cost of \$1,686,891 to build the facilities. These facilities entitle MWD to store water in the Raymond Basin tracked in a revolving account. A minimum of 2,250 acre feet per year up to a maximum account balance of 9,000 acre feet can be stored and 3,000 acre feet per year in the event of a supply shortage can be extracted. Since November 2007, the District has produced a total of 2,797 from this account. As of June 30, 2011, the remaining balance is 517 acre feet, valued at \$744 per acre foot (MWD's treated tier 1 rate) for a total value of \$384,648. This value increases as MWD's rates increase since the District purchases the water when it is withdrawn at the then prevailing MWD rates.

The District was required to complete construction of the facilities by October 31, 2008. Any costs incurred over the approved MWD budget amount of \$1.7 million were to be the responsibility of the District. As of June 30, 2011, the District had completed the project and was not over budget.

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 5: Long-Term Debt

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the District for the fiscal year ended June 30, 2011:

	Balance at July 1, 2010	Additions	Repayments	Balance at June 30, 2011	Due Within One Year
Compensated absences	\$ 87,859	\$ -	\$ (19,002)	\$ 68,857	\$ -
Other postemployment benefits	98,792	98,009		196,801	
Total	<u>\$ 186,651</u>	<u>\$ 98,009</u>	<u>\$ (19,002)</u>	<u>\$ 265,658</u>	<u>\$ -</u>

Compensated Absences

Included in accrued liabilities are accruals for accumulated sick leave and fully vested accumulated vacation pay. It is District policy to allow employees to accumulate paid leave up to a maximum of 320 vacation hours and 480 sick leave hours. Upon termination of employment, whether voluntary or involuntary, an employee shall be compensated for all vacation time earned but unused (maximum of 320 hours) at the date of termination. Sick leave will be paid out at 50% of the accumulated unused sick leave hours (maximum of 480 hours) as of the date of termination. Such compensation shall be at the employee's hourly straight-time pay rate in effect at the date of termination.

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

	Balance at June 30, 2011	Balance at June 30, 2010
Accrued sick leave	\$ 18,981	\$ 32,277
Accrued vacation	49,866	55,582
Total	<u>\$ 68,847</u>	<u>\$ 87,859</u>

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 6: Employees Retirement Plan (Defined Benefit Pension Plan)

Plan Description:

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, 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 state statute and local resolution. Copies of PERS' annual financial report may be obtained from the Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy:

The contribution rate for participants is 7.0% 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 2011, 2010, and 2009 were 32.171%, 39.219%, and 30.107%, respectively. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost:

For fiscal year 2011, the District's annual pension cost was \$198,666, not including the employees' portion of \$51,146, and was equal to 100% of the District's required contribution for the fiscal year. The District's annual pension cost for the fiscal years ending June 30, 2010 and 2009 were \$186,180 and \$178,677 respectively, and represent 100% of the annual required contributions for each fiscal year.

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, 2011, 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.

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.

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 7: Risk Management (Continued)

At June 30, 2011, the District participated in the liability and property programs of the ACWA/JPIA as follows (Continued):

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 estimate 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 of June 30, 2011.

Note 8: Net Assets

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt.

Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related 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 purchases.

Note 9: 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. For the fiscal year ended June 30, 2011, the District purchased \$6,282,677 of water from the Metropolitan Water District.

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 10: Operating Lease

The District leases a copier under an operating lease which requires 36 monthly payments of \$249 plus tax. The District also leases a postage machine under an operating lease which requires 17 quarterly payments of \$167 plus tax. The following is a schedule, by year, of future minimum lease payments required under the operating leases as of June 30, 2011:

<u>Fiscal Year</u> <u>Ending, June 30</u>	<u>Amount</u>
2012	\$ 3,656
2013	3,656
2014	2,077
Total	<u>\$ 9,389</u>

Note 11: Deferred Compensation Plans

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District matches employee contributions at rate of 3%.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) administered by the District, with funds forwarded and held in trust by a third party administrator (CitiStreet LLC) for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.

Note 12: Post Retirement Health Insurance

Plan Description

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.

Funding Policy

The District's policy is to contribute an amount sufficient to pay the current year's premium. For fiscal year 2010-11, the District contributed \$38,750, which covered current premiums, but did not include any additional prefunding of benefits. Currently, there are 3 retirees who are receiving benefits.

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 12: Post Retirement Health Insurance (Continued)

Annual OPEB and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45's Alternative Measurement Method allowed for employers with less than 100 plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution	\$ 136,759
Annual OPEB cost (expense)	136,759
Contributions made	(38,750)
Increase in net OPEB obligation	98,009
Net OPEB obligation - beginning of fiscal year	98,792
Net OPEB obligation - end of fiscal year	\$ 196,801

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009-10 and 2010-11 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contribution</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2010	\$ 136,759	28%	\$ 98,792
6/30/2011	136,759	28%	196,801

Funded Status and Funding Progress

As of June 30, 2010, the most recent Alternate Measurement Method valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,542,691, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,542,691. The covered payroll (annual payroll of active employees covered by the plan) was \$640,520, and the ratio of the UAAL to the covered payroll was 240.85 percent.

The Alternate Measurement Method 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.

Actuarial Methods and Assumptions

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 Alternate Measurement Method valuation (valuation) methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

FOOTHILL MUNICIPAL WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2011

Note 12: Post Retirement Health Insurance (Continued)

Actuarial Methods and Assumptions (continued)

In the June 30, 2010 actuarial valuation, the actuarial assumptions included a 3.0 percent investment rate of return, an assumed retirement age of 65 years old, and an annual healthcare cost trend rate of 5.5 to 9.0 percent. The actuarial value of assets is not applicable (no assets as of the initial valuation date). The UAAL is being amortized as a flat percentage of covered payroll over thirty years. The remaining amortization period at June 30, 2010 was thirty years.

Note 13: Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in-lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies).

The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$6,677. As of June 30, 2011 there is a loan receivable recognized on the Statement of Net Assets.

SUPPLEMENTARY INFORMATION



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**INDEPENDENT AUDITOR'S 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
Foothill Municipal Water District
La Cañada Flintridge, California

We have audited the accompanying financial statements of the Foothill Municipal Water District (District) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon, dated December 1, 2011. 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

We noted certain other matters that we reported to the management of the District in a separate letter dated December 1, 2011.

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 grants, 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*.

This report is intended solely for the information and use of the District's Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 1, 2011