

**HEBER PUBLIC UTILITY DISTRICT**

**GENERAL PURPOSE  
FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2004**

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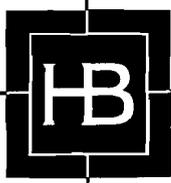
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## FINANCIAL SECTION



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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Heber Public Utility District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Heber Public Utility District 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 the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Heber Public Utility District as of June 30, 2004, and the respective changes in financial position and the 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 March 13, 2006 on our consideration of the Heber Public Utility District internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The Management's Discussion and Analysis on pages 6 through 11 and budgetary comparison information on pages 38 through 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Heber Public Utility District's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Heber Public Utility District. The schedule of expenditures of federal awards 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.

*Hutchinson and Bloodgood LLP*

March 13, 2006

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2004**

The discussion and analysis of the financial performance of Heber Public Utility District provides an overview of the District's financial activities for the year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; users of these financial statements should read this discussion and analysis of this report and the District's basic financial statements following this section to enhance their understanding of the District's financial performance.

**FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the 2003-2004 fiscal years by \$9,982,950 (*Net Assets*). Of those net assets, \$927,150 is unrestricted. The total amount of non current liabilities for governmental activities is \$2,331,712. Total Restricted Net Assets for the District is \$9,055,800.
- As of June 30, 2004, the District's governmental funds reported total ending fund balances of \$704,441, an increase of \$680,694 in comparison with the prior year which had a decrease of \$19,709.
- At the end of the current fiscal year, unreserved fund balance for the General Fund is \$200,658 or 47% of total General Fund expenditures.
- At the end of the current fiscal year, the Business Type Activities assets exceeded its liabilities by \$5,049,761 a decrease of (\$109,848) from the prior year. The prior year had an increase of \$ 1,186,008.
- The District's total long-term debt increased by the amount of \$1,032,127 in comparison with the prior year. The increase is the result of the District's loan from USDA on Certificates of Participation for the water plant, water distribution and wastewater collection systems projects.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. These statements are organized so that readers can understand the Heber Public Utility District as a financial whole or as an entire operating entity. The District's basic financial statements are comprised of three components: 1) Government-wide financial statements; 2) Fund financial statements; and 3) Notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

**1. Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2004**

The Statement of Activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event takes place regardless of when cash is received or paid. Thus, some revenues and expenses reported in this statement are for some items that will only result in cash inflows and outflows in future fiscal years. Both the Statement of Net Assets and the Statement of Activities distinguishes between activities that are primarily financed with taxes and intergovernmental revenues (governmental activities) and those that are intended to recover all or a significant portion of their costs through user fees and charges for services (business-type activities). The District's governmental activities include general government, parks/retention basins. The business-type activities of the District include the operation of the Water, Wastewater plant and Solid Waste (Trash).

The government-wide financial statements are presented on pages 12 and 13 of this report.

## **2. Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. A fund is a fiscal and accounting entity designated to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. All of the District's funds can be divided into two categories: governmental funds and business type funds.

**Governmental funds** are used to account for activities that are similar in nature to the governmental activities in the government-wide financial statements. However, unlike the government wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be used in evaluating the District's near-term financing requirements and available resources.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This will allow readers to get a better understanding of the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements are presented on pages 14 and 16 of this report.

**Proprietary funds** are reported as enterprise funds. Enterprise funds are reported as functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for the Water, Sewer and Solid Waste (trash) operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Solid waste operations, are considered to be major funds of the District.

The basic proprietary financial statements are presented on pages 18 to 20 of this report.

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2004**

**3. Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in both government-wide and fund financial statements.

The notes to the financial statements are presented on pages 21 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$9,982,950 (see Table 1) at the close of the current fiscal year.

The portion of the District's net assets reflects unrestricted net assets of \$927,150. Investment in capital assets (e.g., infrastructures, improvements, and construction in progress); less any related outstanding debt used to acquire those assets is \$5,016,396. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets represents resources that are subject to external restrictions on how they may be used and amounts to \$4,039,404. The portion of the restricted net assets is the aggregate amount for repairs, replacement and maintenance of \$361,487, debt repayment of \$62,120 and capital outlay projects of \$3,615,797.

At the end of the current fiscal year, the District as a whole and for its governmental and business type activities reported positive balances in net assets.

**Table 1 – Heber Public Utility District Net Assets  
For the Year Ended June 30, 2004**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
<b>Current Assets:</b>			
Cash and Investments	\$ 837,406	\$ 324,164	\$ 1,161,570
Receivables	566,592	78,800	645,392
Capital Assets	<u>5,383,659</u>	<u>5,966,131</u>	<u>11,349,790</u>
<b>Total Assets</b>	<u>\$ 6,787,657</u>	<u>\$ 6,369,095</u>	<u>\$ 13,156,752</u>
<b>Current and Other Liabilities</b>	\$ 721,469	\$ 120,621	\$ 842,090
Long-Term Liabilities	<u>1,132,999</u>	<u>1,198,713</u>	<u>2,331,712</u>
<b>Total Liabilities</b>	<u>1,854,468</u>	<u>1,332,715</u>	<u>3,187,183</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related debt	281,939	4,734,457	5,016,396
Capital Projects	3,615,797	-	3,615,797
Restricted	62,120	361,487	423,607
Unrestricted	<u>973,333</u>	<u>(46,183)</u>	<u>927,150</u>
<b>Total Net Assets</b>	<u>\$ 4,933,189</u>	<u>\$ 5,049,761</u>	<u>\$ 9,982,950</u>

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2004**

**Table 2 - Heber Public Utility District Changes in Net Assets  
for the Year Ended June 30, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>Program Revenues:</b>			
Charge for Services	\$ --	\$ 962,846	\$ 962,846
Water Capacity	15,000	--	15,000
Waste-Water Capacity	153,500	--	153,500
Royalties	12,713	--	12,713
Grants and Contributions	62,120	100,000	162,120
Capital Grants & Contributions	<u>3,960,849</u>	<u>--</u>	<u>3,960,849</u>
	4,204,182	1,062,846	5,267,028
<b>General Revenues</b>			
Property tax	272,095	--	272,095
Other revenue	29,083	22,600	51,683
Sale of fixed Assets	<u>163,241</u>	<u>--</u>	<u>163,241</u>
<b>Total revenues</b>	<u>4,668,601</u>	<u>1,085,446</u>	<u>5,754,047</u>
<b>Program Expenses:</b>			
General Government	527,286	--	527,286
Water Capacity	150,000	--	150,000
Water	--	437,875	437,875
Wastewater	--	525,346	525,346
Solid Waste	<u>--</u>	<u>233,567</u>	<u>233,567</u>
<b>Total expenses</b>	<u>677,286</u>	<u>1,196,788</u>	<u>1,874,074</u>
Excess ( Deficiencies) Before Special Items and Transfers	3,991,315	(111,342)	3,879,973
Transfers in (out)	<u>(1,494)</u>	<u>1,494</u>	<u>--</u>
Change in Net Assets:	<u>\$ 3,989,821</u>	<u>\$ (109,848)</u>	<u>\$ 3,879,973</u>

**Governmental Activities**

Governmental activities increased the District's net assets by \$3,991,315 for the year ended June 30, 2004, thereby accounting for 102.6% of the total increase in the net assets of the District.

- The District has a series of projects using Grants and Long Term Debt funds, accounting for an increase to fixed assets of \$3,160,469.
- Operating grants and contributions served the construction projects, representing 78.34% of the District's program revenue for governmental activities, and are tied to capital projects.
- The District recorded \$163,241 in the sale of fixed assets for the current fiscal year.

**Business-type Activities**

The Business-type activities change in net assets decreased \$109,848.

- Depreciation expense for business type activities amounted to \$292,885 for the fiscal year.

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2004**

**Governmental Funds**

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2004, The District's governmental funds reported total fund balances of \$704,441, a 35.6% increase in comparison with the prior year. Approximately 86% or \$606,517 of the total fund balances constitutes unreserved fund balance, which is available to meet the District's future capital projects, and future obligations. The 14% has been committed to 1) to pay debt service and 2) for capital projects.

The District's management may also designate unreserved fund balance to a particular function, project, or activity, however designated fund balance is available for appropriations at any time.

Revenues for governmental functions totaled \$5,633,541 at June 30, 2004. Expenditures for government functions totaled \$4,898,219 at June 30, 2004.

**Proprietary Funds**

The proprietary fund provides similar information to the government-wide financial statements, but in more detail.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2004, the District's investment in capital assets for its governmental and business-type activities amounted to \$11,349,790 (net of accumulated depreciation). The investments in capital assets are comprised of land, infrastructure, structures and improvements, furniture and equipment, vehicles, and construction in progress. The District, according to GASB 34 guidelines, has elected retroactively to include all infrastructure assets.

**Table 3 -The District's Capital Assets (Net of accumulated depreciation)**

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b>Total</b>
Land	\$ 195,031	\$ 24,000	\$ 219,031
Infrastructure & Improvements	5,160,885	5,907,641	11,068,526
Furniture and Equipment	<u>27,743</u>	<u>34,490</u>	<u>62,233</u>
Total	<u>\$ 5,383,659</u>	<u>\$ 5,966,131</u>	<u>\$ 11,349,790</u>

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2004**

The major capital events during the current fiscal year include the following:

- Water Treatment Plant Project construction in progress: \$4,135,929
- Water Distribution System construction in progress: \$792,775
- Sewer Collection System construction in progress: \$168,930

**Long-Term Debt**

At the end of the current fiscal year, the District had total long-term debt outstanding of \$2,386,585 which is described in the table below.

**Table 4 - The District's Outstanding Debt**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
1968 Sewer Bonds	\$ --	\$ 30,000	\$ 30,000
1972 Water Bonds	--	38,000	38,000
Capital Lease Obligation	1,912	3,825	5,737
Trentham Water Line Note Payable	--	196,349	196,349
2002 Water enterprise Certificates of Participation	1,152,999	--	1,152,999
2000 Wastewater enterprise Certificates of Participation	<u>    --</u>	<u>  963,500</u>	<u>  963,500</u>
Total	<u>\$ 1,154,911</u>	<u>\$ 1,231,674</u>	<u>\$ 2,386,585</u>

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Graciela Lopez, HPUD Finance Officer at (760) 482-2440.

**HEBER PUBLIC UTILITY DISTRICT**  
**STATEMENT OF NET ASSETS**  
June 30, 2004

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 837,406	\$ 324,164	\$ 1,161,570
Deposit with fiscal agent		--	--
Receivables	566,592	78,800	645,392
Noncurrent assets:			
Note receivables		--	--
Capital assets net of accumulated depreciation			
Land	195,031	24,000	219,031
Infrastructure	63,251	--	63,251
Structures and improvements	5,097,634	5,907,641	11,005,275
Equipment	27,743	34,490	62,233
Total assets	6,787,657	6,369,095	13,156,752
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	632,685	32,173	664,858
Deferred revenue	20,200	--	20,200
Accrued payroll	44,956	51,996	96,952
Accrued expenses	718	--	718
Noncurrent liabilities:			
Customer deposits payable	998	3,491	4,489
Due within one year	21,912	32,961	54,873
Due in more than one year	1,132,999	1,198,713	2,331,712
Total liabilities	1,854,468	1,319,334	3,173,802
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,897,736	4,734,457	8,632,193
Restricted for:			
Special revenue	--	361,487	361,487
Debt service	62,120	--	62,120
Unrestricted	973,333	(46,183)	927,150
Total net assets	\$ 4,933,189	\$ 5,049,761	\$ 9,982,950

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2004**

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Asset		
	Expenses	Royalties & Services	Operating Grants and Contribution	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<b>Primary Government:</b>							
Governmental activities							
General government	\$ 527,286	\$ 12,713	\$ 62,120	\$ 3,960,849	\$ 3,508,396	\$ --	\$ 3,508,396
Water Capacity	150,000	15,000	--	--	(135,000)	--	(135,000)
Waste Water Capacity	--	153,500	--	--	153,500	--	153,500
Other governmental activities	--	--	--	--	--	--	--
Total Governmental Activities	<u>677,286</u>	<u>181,213</u>	<u>62,120</u>	<u>3,960,849</u>	<u>3,526,895</u>	<u>--</u>	<u>3,526,895</u>
Business activities							
Water	437,875	398,072	100,000	--	--	60,197	60,197
Wastewater	525,346	312,422	--	--	--	(212,924)	(212,924)
Other	<u>233,567</u>	<u>252,352</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>18,785</u>	<u>18,785</u>
Total Business Type Activities	<u>1,196,788</u>	<u>962,846</u>	<u>100,000</u>	<u>--</u>	<u>--</u>	<u>(133,942)</u>	<u>(133,942)</u>
<b>General revenues:</b>							
Property tax					272,095	--	272,095
Other revenue					29,083	22,600	51,683
Sale of fixed assets					163,241	--	163,241
Transfers in (out)					<u>(1,494)</u>	<u>1,494</u>	<u>--</u>
Total general revenues					<u>462,925</u>	<u>(24,094)</u>	<u>487,019</u>
Change in net assets					3,989,820	(109,848)	3,879,972
<b>Net assets - beginning</b>					<u>521,044</u>	<u>4,152,737</u>	<u>4,673,781</u>
Adjustment					<u>422,325</u>	<u>1,006,872</u>	<u>1,429,197</u>
Adjusted Net Assets - beginning					943,369	5,159,609	6,102,978
<b>Net assets - ending</b>					<u>\$ 4,933,189</u>	<u>\$ 5,049,761</u>	<u>\$ 9,982,950</u>

**HEBER PUBLIC UTILITY DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004**

	<u>General</u>	<u>Water Capacity</u>	<u>Wastewater Capacity</u>	<u>Water Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash	\$ 232,834	\$ 393,424	\$ 193,004	\$ --	\$ 17,115	\$ 836,377
Investments	1,029	--	--	--	--	1,029
Accounts receivables	24,153	--	--	465,533	76,906	566,592
Property and Equipment, net	--	--	--	--	--	--
Total Assets	<u>\$ 258,016</u>	<u>\$ 393,424</u>	<u>\$ 193,004</u>	<u>\$ 465,533</u>	<u>\$ 94,021</u>	<u>\$ 1,403,998</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 18,710	\$ --	\$ --	\$ 432,177	\$ 30,502	\$ 481,389
Accrued expenses	38,648	150,000	--	--	9,320	197,968
Deferred revenue	--	10,100	10,100	--	--	20,200
Total Liabilities	<u>57,358</u>	<u>160,100</u>	<u>10,100</u>	<u>432,177</u>	<u>39,822</u>	<u>699,557</u>
<b>FUND BALANCES</b>						
Reserved for:						
Debt service	--	--	--	--	79,233	79,233
Capital outlay	--	--	--	33,356	(14,665)	18,691
Unreserved, reported in						
General fund	200,658	--	--	--	--	200,658
Special revenue funds	--	233,324	182,904	--	(10,369)	405,859
Total Fund Balances	<u>200,658</u>	<u>233,324</u>	<u>182,904</u>	<u>33,356</u>	<u>54,199</u>	<u>704,441</u>
Total Liabilities and Fund Equity	<u>\$ 258,016</u>	<u>\$ 393,424</u>	<u>\$ 193,004</u>	<u>\$ 465,533</u>	<u>\$ 94,021</u>	<u>\$ 1,403,998</u>

**HEBER PUBLIC UTILITY DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 June 30, 2004**

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds	\$ 704,441
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. The cost of the assets is \$5,601,683 and the accumulated depreciation is \$218,024.	5,383,659
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,154,911)</u>
Total net assets - governmental activities	<u>\$ 4,933,189</u>

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES GOVERNMENTAL FUNDS  
Fiscal Year Ended June 30, 2004**

	<u>General</u>	<u>Water Capacity</u>	<u>Wastewater Capacity</u>	<u>Water Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUE</b>						
Property taxes	\$ 272,095	\$ --	\$ --	\$ --	\$ --	\$ 272,095
Interest	3,751	7,367	12,996	19	--	24,133
Royalties	12,713	--	--	--	--	12,713
Charges for Service	--	15,000	153,500	--	--	168,500
Loans	--	--	--	830,041	--	830,041
Grants	--	--	--	3,888,567	72,282	3,960,849
Sale of fixed asset	298,140	--	--	--	--	298,140
Other Revenue	<u>4,950</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>62,120</u>	<u>67,070</u>
Total Revenue	<u>591,649</u>	<u>22,367</u>	<u>166,496</u>	<u>4,718,627</u>	<u>134,402</u>	<u>5,633,541</u>
<b>EXPENDITURES</b>						
General Government	426,973	150,000	--	--	57,663	634,636
Capital outlay	--	--	--	4,176,636	86,947	4,263,583
Community Development	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Expenditures	<u>426,973</u>	<u>150,000</u>	<u>--</u>	<u>4,176,636</u>	<u>144,610</u>	<u>4,898,219</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>164,676</u>	<u>(127,633)</u>	<u>166,496</u>	<u>541,991</u>	<u>(10,208)</u>	<u>735,322</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating Transfers In	120,014	--	--	16,041	199,276	335,331
Operating Transfers Out	<u>(120,895)</u>	<u>--</u>	<u>(120,000)</u>	<u>--</u>	<u>(149,064)</u>	<u>(389,959)</u>
Total Other Financing Sources (Uses)	<u>(881)</u>	<u>--</u>	<u>(120,000)</u>	<u>16,041</u>	<u>50,212</u>	<u>(54,628)</u>
Net change in fund balances	163,795	(127,633)	46,496	558,032	40,004	680,694
Fund Balance, July 1	<u>36,863</u>	<u>360,957</u>	<u>136,408</u>	<u>(524,676)</u>	<u>14,195</u>	<u>23,747</u>
Fund Balance, June 30	<u>\$ 200,658</u>	<u>\$ 233,324</u>	<u>\$ 182,904</u>	<u>\$ 33,356</u>	<u>\$ 54,199</u>	<u>\$ 704,441</u>

**HEBER PUBLIC UTILITY DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2004**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - governmental funds		\$ 680,694
<p>Capital assets used in governmental funds report capital outlays as expenditures. However in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
	Sale of asset	(134,899)
	Depreciation expense	(10,217)
	Capital outlay	<u>4,262,109</u>
		4,116,993
Long-term liabilities, including bonds payable , increased during the year.		(830,041)
Long-term liabilities, including bonds payable . decreased during the year.		<u>22,174</u>
Change in net assets - governmental activities		<u><u>\$ 3,989,820</u></u>

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2004**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Current Assets				
Cash and investments	\$ 168,735	\$ 245,770	\$ (90,341)	\$ 324,164
Deposits with fiscal agent	--	--	--	--
Receivables	33,843	25,057	19,900	78,800
Inventory	--	--	--	--
Due from other funds	--	--	--	--
Note receivables	--	--	--	--
Total Current Assets	<u>202,578</u>	<u>270,827</u>	<u>(70,441)</u>	<u>402,964</u>
Unamortized bond issue and deferred costs	--	--	--	--
Property and Equipment, net	<u>1,990,912</u>	<u>3,975,219</u>	<u>--</u>	<u>5,966,131</u>
Total Noncurrent Assets	<u>1,990,912</u>	<u>3,975,219</u>	<u>--</u>	<u>5,966,131</u>
Total Assets	<u>\$ 2,193,490</u>	<u>\$ 4,246,046</u>	<u>\$ (70,441)</u>	<u>\$ 6,369,095</u>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	14,733	17,440	--	32,173
Wages and benefits payable	23,021	28,966	9	51,996
Compensated absences payable	--	--	--	--
Deposits	1,520	1,155	816	3,491
Accrued expenses	--	--	--	--
Current portion - long term debt	--	--	--	--
Total Current Liabilities	<u>39,274</u>	<u>47,561</u>	<u>825</u>	<u>87,660</u>
Deferred compensation payable	--	--	--	--
Certificates of participations	<u>236,262</u>	<u>995,412</u>	<u>--</u>	<u>1,231,674</u>
Total Noncurrent Liabilities	<u>236,262</u>	<u>995,412</u>	<u>--</u>	<u>1,231,674</u>
Total Liabilities	<u>275,536</u>	<u>1,042,973</u>	<u>825</u>	<u>1,319,334</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,754,650	2,979,807	--	4,734,457
Restricted	156,065	162,422	43,000	361,487
Unrestricted	<u>7,239</u>	<u>60,844</u>	<u>(114,266)</u>	<u>(46,183)</u>
Total Net Assets	<u>1,917,954</u>	<u>3,203,073</u>	<u>(71,266)</u>	<u>5,049,761</u>
Total Liabilities and Fund Equity	<u>\$ 2,193,490</u>	<u>\$ 4,246,046</u>	<u>\$ (70,441)</u>	<u>\$ 6,369,095</u>

**HEBER PUBLIC UTILITY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Fiscal Year Ended June 30, 2004**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Charges for Service	\$ 398,072	\$ 312,422	\$ 252,352	\$ 962,846
Total Operating Revenue	<u>398,072</u>	<u>312,422</u>	<u>252,352</u>	<u>962,846</u>
<b>OPERATING EXPENSES</b>				
Salaries and Benefits	160,173	98,642	2,142	260,957
Materials and Supplies	86,279	25,777	1,243	113,299
Contract and Other Services	102,449	140,409	230,182	473,040
Depreciation Expense	<u>66,777</u>	<u>215,891</u>	<u>--</u>	<u>282,668</u>
Total Operating Expenses	<u>415,678</u>	<u>480,719</u>	<u>233,567</u>	<u>1,129,964</u>
Operating Income (Loss)	<u>(17,606)</u>	<u>(168,297)</u>	<u>18,785</u>	<u>(167,118)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Interest Income	108	611	--	719
Grant funds and Other Revenue	100,000	21,881	--	(121,881)
Interest Expense	(22,197)	(44,627)	--	(66,824)
Amortization of Bond Costs	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Non-Operating Revenue (Expense)	<u>77,911</u>	<u>(22,135)</u>	<u>--</u>	<u>55,776</u>
Income (Loss) Before Operating Transfers	<u>60,305</u>	<u>(190,432)</u>	<u>18,785</u>	<u>(111,342)</u>
Operating Transfers In (Out)	<u>(7,133)</u>	<u>8,617</u>	<u>10</u>	<u>1,494</u>
Change in Net Assets	<u>53,172</u>	<u>(181,815)</u>	<u>18,795</u>	<u>(109,848)</u>
Net Assets, July 1	2,067,181	2,150,654	(65,098)	4,152,737
Prior year adjustment of fund balance	<u>(202,399)</u>	<u>1,234,234</u>	<u>(24,963)</u>	<u>1,006,872</u>
Adjusted Net Assets, July 1	<u>1,864,782</u>	<u>3,384,888</u>	<u>(90,061)</u>	<u>5,159,609</u>
Net Assets, June 30	<u>\$ 1,917,954</u>	<u>\$ 3,203,073</u>	<u>\$ (71,266)</u>	<u>\$ 5,049,761</u>

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2004**

	<u>Water</u>	<u>Wastewater</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from users	\$ 366,820	\$ 288,385	\$ 233,428	\$ 888,633
Cash paid to suppliers	(182,582)	(153,771)	(231,217)	(567,570)
Cash paid to employees	(138,235)	(73,396)	(682)	(212,313)
NET CASH PROVIDED BY OPERATIONS	<u>46,003</u>	<u>61,218</u>	<u>1,529</u>	<u>108,750</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating Transfers In (Out)	(1,879)	8,622	10	6,753
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(1,879)</u>	<u>8,622</u>	<u>10</u>	<u>6,753</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Interest expense	(22,197)	(44,627)	--	(66,824)
Purchase of fixed assets	(492)	--	--	(492)
Bond principal payments	(17,069)	(23,563)	--	(40,632)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(39,758)</u>	<u>(68,190)</u>	<u>--</u>	<u>(107,948)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on cash and investments	108	611	--	719
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>108</u>	<u>611</u>	<u>--</u>	<u>719</u>
<b>CASH FLOWS FROM OTHER FINANCING SOURCES</b>				
GRANTS RECEIVED	100,000	21,881	--	121,881
NET CASH FROM OTHER FINANCING SOURCES	<u>100,000</u>	<u>21,881</u>	<u>--</u>	<u>121,881</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>104,474</u>	<u>24,142</u>	<u>1,539</u>	<u>130,155</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>64,261</u>	<u>221,628</u>	<u>(91,880)</u>	<u>194,009</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 168,735</u>	<u>\$ 245,770</u>	<u>\$ (90,341)</u>	<u>\$ 324,164</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating Income	\$ (17,606)	\$ (168,297)	\$ 18,785	\$ (167,118)
Adjustments to Reconcile operating Income To Net Cash Provided by Operations				
Depreciation and amortization	66,777	215,891	--	282,668
Increase (Decrease) in receivables	(31,252)	(24,037)	(18,924)	(74,213)
Increase (Decrease) in accounts payable	6,146	12,415	208	18,769
Decrease in payroll liabilities payable	21,938	25,246	1,460	48,644
NET CASH PROVIDED BY OPERATIONS	<u>\$ 46,003</u>	<u>\$ 61,218</u>	<u>\$ 1,529</u>	<u>\$ 108,750</u>

## HEBER PUBLIC UTILITY DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2004

#### NOTE 1. THE FINANCIAL REPORTING ENTITY

The financial statements of the Heber Public Utility District (The "District") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below:

##### ***Reporting Entity***

The financial statements of the Heber Public Utility District include the financial activities of the District and the Heber Public Utility Financing HPUFC (HPUFC).

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement 14. The Heber Public Utility District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's Board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the HPUFC as a component unit. Despite being legally separate, the HPUFC is so intertwined with the District that it is in substance, part of the District's operations. Accordingly, the balances and transactions of the HPUFC are reported as part of the related enterprise funds.

#### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of Presentation**

##### ***Government-wide Financial Statements***

The statement of net assets and statement of activities display information about the primary government (the District) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. The District has one component unit, Heber Public Financing Corporation (HPUFC). However, HPUFC is for all purposes indistinguishable from the District's enterprise fund activities and have been integrated into the Water Fund. Governmental activities, which normally are supported by taxes are reported separately from business-type activities, which rely, to a significant extent on fees charged to external parties.

# HEBER PUBLIC UTILITY DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2004

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation (Continued)

##### ***Government-wide Financial Statements*** (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

##### ***Fund Financial Statements***

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds; each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as non-major funds.

Proprietary funds distinguish *operating* revenues, such as charges for services, results from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Non-operating* revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The funds of the financial reporting entity are as follows:

##### ***Governmental Fund Types***

- The *General Fund* is the primary operating fund of the district and always classified as a major fund. The fund is used to account for all activities except those legally or administratively required to be accounted for in other funds.
- The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, other than capital projects. The district has three Special Revenue Funds: Parks and Recreation Fund, Water Capacity Fund, and Wastewater Capacity Fund. The Water and Wastewater Capacity Funds are classified as major funds.

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Basis of Presentation** (Continued)

***Fund Financial Statements*** (Continued)

***Governmental Fund Types*** (Continued)

- The *Capital Project Funds* are used to account for resources restricted for the acquisition or construction of major capital improvements, other than those financed by revenues accounted for in other funds. The District has two Capital Project Funds: Water Capital Projects and Wastewater Capital Projects. The Water Capital Projects Fund is classified as a major fund.
- The *Debt Service Fund* is used for the purpose of accumulating resources for the payment of interest and current principle on long-term general obligation debt of the governmental funds.

***Proprietary Fund Types***

- The *Enterprise Funds* are used to account for operations that are financed and operated in a manner similar to private enterprises where the intent of the governing body is that the costs of providing goods and services to the public on a continuing basis be financed or recovered primarily through user charges.

**Measurement Focus and Basis of Accounting**

***Measurement Focus***

On the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with their activities are reported.

The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is aggregated and presented in a single column. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement is used as appropriate.

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

*Measurement Focus* (Continued)

The "current financial resources" measurement focus is utilized by all governmental funds. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period.

Proprietary funds utilize the "economic resources" measurement focus. The accounting objectives of this measurement focus are determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with their activities are reported. Proprietary fund equity is classified as net assets.

*Basis of Accounting*

The government-wide proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

# HEBER PUBLIC UTILITY DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2004

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Budgets***

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriation budgets are adopted for the general and special revenue. All annual appropriations lapse at fiscal year end.

#### ***Cash and Investments***

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

State statutes authorize the government to invest in obligations of the U.S. Treasury Commercial paper, corporate bonds and repurchase agreements.

Investments are stated at cost or amortized cost. If market values decline below cost, no loss is recorded as such declines are considered temporary. The District's policy is to hold investments until maturity or until market values equal or exceed cost. However, if the liquidity needs of the District were to require that investments be sold at a loss subsequent to year end, the decline in value would be recorded as a loss at year end.

#### ***Interfund Receivables/Payables***

During the course of operations, numerous transactions occur between individual fund for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

#### ***Interfund Transactions***

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Interfund Transactions* (Continued)

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as equity transfers. All other interfund transfers are reported as operating transfers.

*Property, Plant and Equipment*

Capital assets, including infrastructure, are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general fixed assets, which consist of certain improvements including roads, bridges, pavements in progress, and right of way. The District defines capital assets as assets with initial, individual costs of more than \$5,000 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

The estimated useful lives are as follows:

Buildings	40 - 45 years
Improvements	Additional life of asset
Machinery and Equipment	5 - 15 years
Office Furniture	5 - 7 years
Vehicles	5 years
Infrastructure	5 - 45 years

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is netted against the historical cost of the fixed asset on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimates useful lives are as follows:

Machinery and equipment	5 - 10 years
Water and Wastewater Plant	30 years

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Compensated Absences***

In government fund types, compensated absences that are expected to be liquidated with expendable available financial resources are recorded as an expenditure and a fund liability of the governmental fund that will pay it. The balance of unpaid vacation and compensatory time at June 30, 2004 is recorded in the Current Payroll Liabilities Account Group in the General, Park, Water, Wastewater and Solid Waste Fund as these amounts will be liquidated from future resources rather than expendable available financial resources. Unpaid compensated absences in proprietary fund types are recorded as a liability in those funds as vested benefits to the employees accrue.

***Long-Term Obligations***

Long-term liabilities expected to be financed from governmental fund and proprietary fund operations are accounted for in those funds.

***Fund Equity***

Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

***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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 3. CASH AND INVESTMENTS**

The District follows the practice of pooling cash and investments of all funds except for amounts with fiscal agents and amounts in the deferred compensation plan. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments."

Interest income earned on pooled cash, certificates of deposit and investments is allocated annually to the various funds based on month-end cash and investment balances. Interest income from cash and investments of funds excluded from pooled cash is credited directly to the related fund.

## HEBER PUBLIC UTILITY DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2004

#### NOTE 3. CASH AND INVESTMENTS

##### *Deposits*

The District's deposits at year-end are categorized as follows to give an indication of the level of credit risk assumed by the District at year-end.

Category 1 - Deposits which are insured by the FDIC.

Category 2 - Deposits which are collateralized. The California Government Code requires California banks and savings and loan associations to secure a District's deposits by pledging government securities with a value of 110% of a District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of a District's total deposits. The District Treasurer may waive the collateral requirement for deposits which are fully insured up to \$100,000 by the FDIC. The collateral for deposits in Federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as a third-party trustee. These securities are physically held in an undivided pool for all California public agency depositors. Under government Code Section 53655, the placement of securities by a bank or savings and loan with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local government agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local government agency.

Category 3 - Deposits which are uninsured or uncollateralized.

##### ***California Local Agency Investment Fund (LAIF)***

The Local Agency Investment Fund (LAIF) is a special fund of the California State Treasury through which local governments may pool investments. Each Local government may invest up to \$ 20,000,000 in this fund. Investments are highly liquid and may be converted to cash within 24 hours. This type of investment is not subject to categorization.

At June 30, 2004 the District did not have investments with LAIF.

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004**

**NOTE 3. CASH AND INVESTMENTS (Continued)**

***County Treasury***

The cash held by the Imperial County Treasury can only be used to pay the principal and interest due for the 1968 sewer bonds and the 1972 water bonds. The terms of the BEIF Construction and Transition Assistance Grant Agreement, which funded in part the wastewater expansion project, required that the District establish and fund Operations and Maintenance Reserve (OMR), Repair and Replacement Reserve (RRR), and Debt Service Reserve(DSR) accounts. These funds are required to be deposited in interest bearing accounts and are restricted for such use.

Deposits and investments were categorized as follows as of June 30, 2004:

	Category			Bank Balances	Carrying Amount
	1	2	3		
Deposits					
Cash In County Treasury	\$ 17,115	\$ --	\$ --	\$ 17,115	\$ 17,115
Demand deposits	<u>1,144,455</u>	<u>--</u>	<u>--</u>	<u>1,243,518</u>	<u>1,144,455</u>
	<u>\$1,161,570</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,243,518</u>	<u>\$ 1,161,570</u>

Cash and investments are reported as follows on the Statement of Net Assets

Cash and investments	<u>\$ 1,161,570</u>
----------------------	---------------------

**NOTE 4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of Imperial bills and collects the property taxes and remits them to the District in installments during the year. District property tax revenues are recognized when received.

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004**

**NOTE 5. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<b>Governmental activities:</b>				
Land	\$ 329,930	\$ --	\$ 134,899	\$ 195,031
Buildings	250,010	--	--	250,010
Machinery and equipment	42,481	3209	--	45,691
Furniture and fixtures	4,636	8,682	--	13,318
Construction in process	<u>1,607,235</u>	<u>4,338,934</u>	<u>848,535</u>	<u>5,097,634</u>
Total capital assets	<u>2,234,292</u>	<u>4,350,825</u>	<u>983,434</u>	<u>5,601,684</u>
Less accumulated depreciation for:				
Buildings	183,814	2,945	--	186,759
Machinery and equipment	19,356	5,825	--	25,182
Furniture and fixtures	<u>4,636</u>	<u>1,447</u>	--	<u>6,083</u>
Total accumulated depreciation	<u>207,807</u>	<u>10,217</u>	--	<u>218,024</u>
Governmental activities capital assets, net	<u>\$ 2,026,485</u>	<u>\$ 4,340,608</u>	<u>\$ 983,434</u>	<u>\$ 5,383,659</u>
<b>Business-type activities:</b>				
Land	\$ 24,000	\$ --	\$ --	\$ 24,000
Structures & Improvements	76,500	--	--	76,500
Machinery and equipment	127,279	492	--	127,771
Infrastructure	<u>7,708,999</u>	<u>924,015</u>	<u>186,170</u>	<u>8,446,843</u>
Total capital assets	<u>7,936,768</u>	<u>924,507</u>	<u>186,170</u>	<u>8,675,114</u>
Less accumulated depreciation for:				
Structures & Improvements	74,800	1,700	--	76,500
Machinery and Equipment	86,377	6,903	--	93,280
Infrastructure	<u>2,260,219</u>	<u>278,984</u>	--	<u>2,539,203</u>
Total accumulated depreciation	<u>2,421,396</u>	<u>287,587</u>	--	<u>\$ 2,708,983</u>
Business-type activities capital assets, net	<u>\$ 5,515,372</u>	<u>\$ 636,920</u>	<u>\$ 186,170</u>	<u>\$ 5,966,131</u>

**Depreciation**

Depreciation expense was charged to functions as follows:

Governmental Activities	
General Government	<u>\$ 10,217</u>
Business-type Activities	
Water	\$ 66,777
Wastewater	215,891
Solid Waste	--
	<u>\$ 292,885</u>

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004**

**NOTE 7. LONG-TERM DEBT**

Debts to be repaid solely by ad valorem taxes are categorized as long-term liabilities of the general government. Debt instruments, such as the 1998 sewer bonds, that call for the payment of both principal and interest to be secured by the fees for services collected by the enterprise activities are classified as liabilities of the enterprise funds. The following is a schedule of long-term liabilities for the year ended June 30, 2004:

General Obligation Bonds	\$ 68,000
Note Payable – Fonzie Trentham	196,349
Capitalized Lease Obligation	5,737
Wastewater Enterprise Certificated of Participation Loan 2000	963,500
Water Enterprise Certificates of Participation Loan 2002	1,152,999

General Obligation Bonds

The following is a summary of bond transactions of the Heber Public Utility District for the year ended June 30, 2004:

	1968 Sewer Bonds	1972 Water Bonds	Total
Bonds Payable – July 1, 2003	\$ 36,000	\$ 42,000	\$78,000
Bonds currently retired	<u>( 6,000)</u>	<u>( 4,000)</u>	<u>(10,000)</u>
Bonds Payable – June 30, 2004	<u>\$ 30,000</u>	<u>\$ 38,000</u>	<u>\$68,000</u>

Both bond issues are general obligation bonds with ad valorem property taxes pledged as security. However, the bonds were used to build infrastructure assets of the water and Wastewater enterprise funds. In order to most accurately reflect the nature of the bonds, the liabilities and fund balances associated with these bonds are recorded in these enterprise funds.

**Governmental Activities**

- Lease payable – The purchase of new equipment through New Holland resulted in a capital lease for equipment shared between the general government and the business-type activities. The total portion of the capital lease allocable to the governmental activities is \$ 1,912, which is current.

**Business-Type Activities**

- 1968 Sewer Bond – The 1968 sewer system construction serial bonds, totaling \$180,000, were issued on October 30, 1968. Remaining annual principal installments of \$6,000 are due each October 30. Semi-annual interest payments are due on October 30 and April 30 with interest at 4.75%. The unpaid balance at June 30, 2004 was \$30,000.

## HEBER PUBLIC UTILITY DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2004

#### NOTE 7. LONG-TERM DEBT (Continued)

##### Business-Type Activities (Continued)

- 1972 Waterworks Serial Bonds – The 1972 waterworks serial bonds, totaling \$112,000, were issued on January 1, 1972. Annual installments, currently \$4,000, are due each January 1. Annual interest payments are due January 1 with interest at 5.0%. Annual principal payments are scheduled to increase to \$5,000 and \$6,000 with the years ending June 30, 2005 and 2009, respectively. The unpaid balance at June 30, 2004 was \$38,000.
- Note Payable Fronzie Trentham – The District issued a note as part of a settlement of a lawsuit brought by Fronzie Trentham. The note, issued in the amount of \$212,500, accrues interest at a rate of 10% beginning February 15, 2002, and is scheduled to be repaid with 180 equal monthly payments of \$2,283.54 with the final payment on February 15, 2017. The note has been recorded in the Water Fund, as it is an obligation arising from the enterprise activities of this fund. The unpaid balance at June 2004 was \$196,349. The current portion of the long-term debt is \$ 8,136.
- Capitalized Lease Obligation – Wastewater Plant expansion Project – Certificates of Participation totaling \$1,008,500 were issued during the year ended June 30, 2001 to retire outstanding certificates of participation totaling \$261,000 and to provide the funds to finance the construction of a new wastewater treatment plant. The certificate of participation, owned by the Rural Utilities Service, an agency of the United States Department of Agriculture, bears a fixed rate of interest of 4.50% and matures in 2040. The unpaid balance at June 30, 2004 was \$963,500.
- Installment Sale Agreement – 2002 Water and Sewer System Improvement Project – Certificates of Participation with a principal amount not to exceed \$1,173,000 were issued December 3, 2002. The interest rate is 4.5% and maturing December 1, 2042. The purpose of this agreement is to secure the loan from the USDA RDA. The obligation is secured solely by a pledge of and charge and lien upon the net revenues of the Wastewater Fund. Principal payments are due on December 1 of each year. The principal amount outstanding at June 30, 2004 was \$1,152,999.
- Lease payable – The purchase of new equipment through New Holland resulted in a capital lease for equipment shared between the general government and the business-type activities. The total portion of the capital lease allocable to the governmental activities is \$ 3,825, with all of it being current.

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004**

**NOTE 7. LONG-TERM DEBT (Continued)**

**Debt Service Requirements**

The following tables identify principal and interest payments of the governmental and business activities separately for each of the next five years, and five year increments thereafter.

Year Ended June 30,	Water and Wastewater		Loans Payable		Certificates of Participation	
	Bonds		Principal	Interest	Principal	Interest
	Principal	Interest				
2005	\$ 11,000	\$ 3,183	\$ 8,136	\$ 19,271	\$ 30,000	\$ 56,838
2006	11,000	2,648	8,983	18,419	30,000	55,500
2007	11,000	2,113	9,924	17,478	30,000	54,158
2008	11,000	1,578	10,918	16,485	35,000	52,819
2009	11,000	1,043	12,107	15,296	35,000	89,168
2010 - 2014	13,000	900	82,384	54,629	185,000	421,988
2015 - 2019	--	--	63,897	9,177	245,000	373,613
2020 - 2024	--	--	--	--	273,000	316,170
2025 - 2029	--	--	--	--	310,000	250,875
2030 - 2034	--	--	--	--	351,300	177,721
2035 - 2040	--	--	--	--	401,500	94,376
2041 - 2045	--	--	--	--	190,699	13,552
	<u>\$ 68,000</u>	<u>\$ 11,465</u>	<u>\$ 196,349</u>	<u>\$ 150,755</u>	<u>\$ 2,116,499</u>	<u>\$ 1,943,226</u>

**NOTE 8. INTERFUND TRANSACTIONS AND BALANCES**

Operating transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (b) uses unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (c) to move fixed assets constructed between the capital project funds that build them to the enterprise funds that place them service.

Interfund transfers for the year ended June 30, 2004 consisted of the following:

	General & Park Fund	Transfers Out					Total
		Water Waste Water Capacity	Capital Projects Funds	Debt Services	Water, Wastewater And Solid Waste		
Transfers in							
General & Park Fund	\$ 17,387	\$ 120,000	\$ --	\$ --	\$ 31,243	\$ 168,630	
Water, Wastewater Capacity	--	--	--	--	--	--	
Capital Project Funds	--	--	--	--	16,041	16,041	
Debt Service	16,363	--	--	--	134,297	150,660	
Water, Wastewater, and Solid Waste	<u>87,145</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>87,145</u>	
Total	<u>\$ 120,895</u>	<u>\$ 120,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 181,581</u>	<u>\$ 422,476</u>	

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004

NOTE 9. EMPLOYEE RETIREMENT PLAN

*Plan Description*

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

*Funding Policy*

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at actuarially determined rates. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

*Annual Pension Cost*

For the fiscal year ended June 30, 2004, the District's annual pension cost including employees' contribution was \$ 21,872 for the Miscellaneous Plan. The actuarial assumptions included (a) 8.5% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 4.5% to 14.45% for miscellaneous members, and (c) 5.0% cost-of-living adjustment. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of the Miscellaneous Plan assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The Miscellaneous Plan of the Heber Public Utility District's unfunded actuarial liability was zero as of June 30, 2004.

**Three-Year Trend Information for Miscellaneous Plan**

<b>Fiscal Year June 30,</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2002	\$ 17,235	100%	--
2003	25,502	100%	--
2004	21,872	100%	--

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004**

**NOTE 12. EMPLOYEE RETIREMENT PLAN (Continued)**

Required Supplementary Information

**Funded Status of Miscellaneous Plan**

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
2001	\$ 380,845	\$ 615,228	\$ (234,383)	161.5%	\$ 127,577	(183.7%)
2002	408,637	658,497	(249,860)	161.1%	206,340	(121.1%)
2003	554,301	657,359	(103,058)	118.6%	268,867	( 38.3%)

**NOTE 13. ACCUMULATED DEFICITS AND DEFICIT FUND BALANCES**

As of June 30, 2004, the following funds have fund deficit:

- The Park Fund has a fund deficit of \$10,369.
- Wastewater Capital Project has a fund deficit of \$14,665.
- Solid Waste Fund has a fund deficit of \$114,766

**NOTE 14. RISK MANAGEMENT**

The District is exposed to risks of loss in the areas of health care, general and auto liability, property hazards and workers' compensation. All of these risks are handled by purchasing commercial insurance coverage. There have been no significant reductions in the insurance coverage during the year. The District has had no settlements which exceeded insurance coverage in the last three fiscal years.

**NOTE 15. COMMITMENTS AND CONTINGENCIES**

***Deferred Income – Water Connection Fees***

The District entered into an agreement on April 24, 1994 with Heber-Wood Homes, L.P., to provide water capacity to a development in Heber planned by the partnership. The agreement provided for an initial advance payment of \$20,200 for the final 50 units to be connected to the District's water and sewer system. This amount has been recorded as a deferred item in the water capacity and wastewater capacity funds, and is subject to refund if not used by the developer.

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004

**NOTE 15. COMMITMENTS AND CONTINGENCIES (Continued)**

***Grant Program Involvement***

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grant or in reduction of future grant funds.

**NOTE 16. PRIOR PERIOD ADJUSTMENT**

During the year ended July 30, 2003, finished capital assets of the Colonias Project were transferred to the water and wastewater funds from work in progress and recorded with an estimated value of \$2,683,762 and \$2,605,794, respectively. However, when these projects were compared to actual invoices issued by the contractor, their value was significantly different. The real value of the finished capital assets of the Water Distribution Improvements and the Wastewater Treatment facility was \$2,497,591 and \$3,529,809, respectively.

Secondly, the District's accounting records included accrual for accounts receivable, that were recorded in the fiscal year ended June 30, 2002, and have not been reversed. These accruals were included in the water, wastewater, and solid waste fund for the amount of \$38,973, \$29,868 and \$24,149 respectively.

Finally, the Districts method of estimation of its construction in progress for the Water and Wastewater Capital Projects was changed to a more accurate method which is based on the periodic invoices sent by the contractor. The change obligated the restatement of the prior year's estimate so the information could be comparable. The original estimated value of the construction in progress accounts were \$519,557 and \$1,087,658 for fiscal year end June 30, 2003. The adjustment increased the Water Capital Project construction in progress amount to \$758,700 and reduced the Wastewater Capital Project construction in progress amount to \$88,616.

These adjustments had a net effect of \$422,325 for Governmental funds and \$1,006,872 for Proprietary Funds, increasing both of their fund balances.

## OTHER SUPPLEMENTARY INFORMATION

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – BUDGET TO ACTUAL  
GENERAL FUND  
Year Ended June 30, 2004**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ 266,650	\$ 272,095	\$ 5,445
Interest	2,500	3,751	1,251
Royalties	7,000	12,713	5,713
Sale of fixed asset	--	298,140	298,140
Other Revenue	<u>3,250</u>	<u>4,950</u>	<u>1,700</u>
Total Revenue	<u>279,400</u>	<u>591,649</u>	<u>312,249</u>
<b>EXPENDITURES</b>			
General Government	<u>248,802</u>	<u>426,973</u>	<u>(178,171)</u>
Total General Government	<u>248,802</u>	<u>426,973</u>	<u>(178,171)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>30,598</u>	<u>164,676</u>	<u>134,078</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	<u>--</u>	<u>120,014</u>	<u>120,014</u>
Operating Transfers Out	<u>--</u>	<u>(120,895)</u>	<u>(120,895)</u>
Total Other Financing Sources (Uses)	<u>--</u>	<u>(881)</u>	<u>(881)</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>30,598</u>	<u>163,795</u>	<u>133,197</u>
Fund Balance, July 1	<u>36,862</u>	<u>36,862</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 67,460</u>	<u>\$ 200,657</u>	<u>\$ 133,197</u>

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – BUDGET TO ACTUAL  
WATER CAPACITY FUND  
Year Ended June 30, 2004**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ --	\$ --	\$ --
Interest	--	7,367	7,367
Royalties	--	--	--
Charges for Service	--	15,000	15,000
Loans	--	--	--
Grants	--	--	--
Sale of fixed asset	--	--	--
Other Revenue	--	--	--
Total Revenue	<u>--</u>	<u>22,367</u>	<u>22,367</u>
<b>EXPENDITURES</b>			
General Government	--	150,000	(150,000)
Capital outlay	--	--	--
Public Works	--	--	--
Culture and Leisure	--	--	--
Community Development	--	--	--
Dial-A-Ride	--	--	--
Total General Government	<u>--</u>	<u>150,000</u>	<u>(150,000)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>--</u>	<u>(127,633)</u>	<u>(127,633)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	<u>--</u>	<u>--</u>	<u>--</u>
Operating Transfers Out	<u>--</u>	<u>--</u>	<u>--</u>
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>--</u>	<u>(127,633)</u>	<u>(127,633)</u>
Fund Balance, July 1	<u>360,957</u>	<u>360,957</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 360,957</u>	<u>\$ 233,324</u>	<u>\$ (127,633)</u>

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – BUDGET TO ACTUAL  
WASTEWATER CAPACITY FUND  
Year Ended June 30, 2004**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ --	\$ --	\$ --
Interest	--	12,996	12,996
Royalties	--	--	--
Charges for Service	--	153,500	153,500
Loans	--	--	--
Grants	--	--	--
Sale of fixed asset	--	--	--
Other Revenue	--	--	--
Total Revenue	<u>--</u>	<u>166,496</u>	<u>166,496</u>
<b>EXPENDITURES</b>			
General Government	--	--	--
Capital outlay	--	--	--
Public Works	--	--	--
Culture and Leisure	--	--	--
Community Development	--	--	--
Dial-A-Ride	--	--	--
Total General Government	<u>--</u>	<u>--</u>	<u>--</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>--</u>	<u>166,496</u>	<u>166,496</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	--	--	--
Operating Transfers Out	--	(120,000)	120,000
Total Other Financing Sources (Uses)	<u>--</u>	<u>(120,000)</u>	<u>(120,000)</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>--</u>	<u>46,496</u>	<u>46,496</u>
Fund Balance, July 1	<u>136,409</u>	<u>136,409</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 136,409</u>	<u>\$ 182,905</u>	<u>\$ 46,496</u>

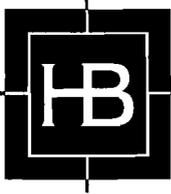
**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – BUDGET TO ACTUAL  
WATER CAPITAL PROJECT FUND  
Year Ended June 30, 2004**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ --	\$ --	\$ --
Interest	--	19	19
Royalties	--	--	--
Charges for Service	--	--	--
Loans	--	830,041	830,041
Grants	--	3,888,567	3,888,567
Sale of fixed asset	--	--	--
Other Revenue	--	--	--
Total Revenue	<u>--</u>	<u>4,718,627</u>	<u>4,718,627</u>
<b>EXPENDITURES</b>			
General Government	--	--	--
Capital outlay	--	4,176,636	(4,176,636)
Public Works	--	--	--
Culture and Leisure	--	--	--
Community Development	--	--	--
Dial-A-Ride	--	--	--
Total General Government	<u>--</u>	<u>4,176,636</u>	<u>(4,176,636)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>--</u>	<u>541,991</u>	<u>541,991</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	<u>--</u>	<u>16,041</u>	<u>16,041</u>
Operating Transfers Out	<u>--</u>	<u>--</u>	<u>--</u>
Total Other Financing Sources (Uses)	<u>--</u>	<u>16,041</u>	<u>16,041</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>--</u>	<u>558,032</u>	<u>558,032</u>
Fund Balance, July 1	<u>(524,676)</u>	<u>(524,676)</u>	<u>--</u>
Fund Balance, June 30	<u>\$ (524,676)</u>	<u>\$ 33,356</u>	<u>\$ 558,032</u>

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – BUDGET TO ACTUAL  
OTHER GOVERNMENTAL FUND  
Year Ended June 30, 2004**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ --	\$ --	\$ --
Interest	--	--	--
Royalties	--	--	--
Charges for Service	--	--	--
Loans	--	--	--
Grants	--	72,282	72,282
Sale of fixed asset	--	--	--
Other Revenue	46,600	62,120	15,520
Total Revenue	<u>(46,600)</u>	<u>134,402</u>	<u>87,802</u>
<b>EXPENDITURES</b>			
General Government	--	--	--
Capital outlay	--	86,947	(86,947)
Public Works	--	--	--
Culture and Leisure	50,965	57,663	(6,698)
Community Development	--	--	--
Dial-A-Ride	--	--	--
Total General Government	<u>50,965</u>	<u>144,610</u>	<u>(93,645)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(97,565)</u>	<u>(10,208)</u>	<u>(5,843)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	--	199,276	199,276
Operating Transfers Out	--	(149,064)	(149,064)
Total Other Financing Sources (Uses)	<u>--</u>	<u>50,212</u>	<u>50,212</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>(97,565)</u>	<u>40,004</u>	<u>44,369</u>
Fund Balance, July 1	<u>(13,499)</u>	<u>(13,499)</u>	<u>--</u>
Fund Balance, June 30	<u>\$ (84,066)</u>	<u>\$ 53,503</u>	<u>\$ 44,369</u>

**SINGLE AUDIT SECTION**



**HUTCHINSON and**

**BLOODGOOD LLP**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the District Council  
Heber Public Utility District, California

We have audited the general purpose financial statements of the Heber Public Utility District as of and for the year ended June 30, 2004, and have issued our report thereon dated March 13, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the Heber Public Utility District's general purpose 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 an instance of noncompliance that is required to be reported under *Government Auditing Standard* which is described in accompanying schedule of findings and questioned cost as item 04-1.

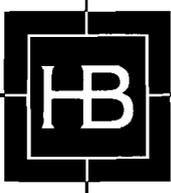
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Heber Public Utility District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, others within the organization, District Council, 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.

*Hutchinson and Bloodgood LLP*

March 13, 2006



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the District Board of Directors  
Imperial, California

Compliance

We have audited the compliance of the Heber Public Utility District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Heber Public Utility District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Heber Public Utility District's management. Our responsibility is to express an opinion on the Heber Public Utility District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Heber Public Utility District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Heber Public Utility District's compliance with those requirements.

As described in item 04-1 in the accompanying schedule of findings and questionable costs, the District did not comply with Section 10 letter b of North American Development Grant Contract agreement which requires written procedures for determining the reasonableness allocability and allowability of costs accounting records. Compliance with such requirements is necessary, in our opinion, for Heber Public Utility District, in order to be in accordance with the program contract. In our opinion, except with the non compliance that was mentioned above, Heber Public Utility District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

### Internal Control Over Compliance

The management of the Heber Public Utility District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Heber Public Utility District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the Heber Public Utility District as of and for the year ended June 30, 2004, and have issued our report thereon dated March 13, 2006. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the audit committee, management, others within the organization, District Council, 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.

*Hutchinson and Bloodgood LLP*

March 13, 2006

**HEBER PUBLIC UTILITY DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2004**

<b>FEDERAL GRANTOR/PASS THROUGH/ GRANTOR PROGRAM TITLE</b>	<b>FEDERAL CFDA <u>NUMBER</u></b>	<b>PASS THROUGH GRANTOR'S <u>NUMBER</u></b>	<b><u>EXPENDITURES</u></b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Direct Program			
Rural Utilities Service Funds	10.760	4, 8, & 9	<u>\$ 1,612,500</u>
Total U.S. Department of Agriculture Rural Utilities Service Funds			<u>\$ 1,612,500</u>
<b>U.S ENVIRONMENT PROTECTION AGENCY</b>			
Pass-through program from North American Bank – Border Environmental Infrastructure Fund	66.418	40-36/03	<u>\$ 2,668,231</u>
Total U.S. Environment Protection Agency			<u>\$ 2,668,231</u>
Total Expenditures of Federal Awards			<u>\$ 4,280,731</u>

**HEBER PUBLIC UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes <u> X </u> none reported
Reportable condition(s) identified not considered to be material weaknesses?	___ yes <u> X </u> no
Noncompliance material to financial statements noted?	___ yes <u> X </u> no

**Federal Awards**

Internal Control over major programs:	
Material weakness(es) identified?	___ yes <u> X </u> no
Reportable condition(s) identified not considered to be material weaknesses?	___ yes <u> X </u> none reported

Type of auditors’ report issued on compliance for major programs:	Unqualified
--	-------------

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<u> X </u> yes    ___ no
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Rural Utilities Service Funds
66.418	Border Environmental Infrastructure Fund

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
---	-----------

Auditee qualified as low-risk auditee?	___ yes <u> X </u> no
--	-----------------------

**HEBER PUBLIC UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

<u>PROGRAM</u>	<u>FINDING/NONCOMPLIANCE</u>	<u>QUESTIONED COST</u>
<p><b>Finding #04-1</b></p> <p><b>PASS-THROUGH PROGRAM FROM NORTH AMERICAN BANK – BORDER ENVIRONMENTAL INFRASTRUCTURE FUND (66.418)</b></p>	<p><b>Criteria</b> – The Grant agreement with NAD Bank requires the District to have Written procedures for determining the reasonableness, allocability and allowability of costs accounting records that are supported by source documentation.</p> <p><b>Condition</b> – While performing testing on the District’s compliance with key issues agreed in the grant contracts, it came to our attention they did not have any written procedures on allocability and allowability of cost accounting records for funds of the program as stated in the contract.</p> <p><b>Effect</b> - The district is in breach of contract with one key issue established by the North American Development Bank.</p> <p><b>Cause</b> – Management failed to present a manual of written controls on allocability and allowability of cost accounting records for funds of that program.</p> <p><b>Recommendation</b> – The District needs to make a written manual of procedures for allocability and allowability of cost accounting records to be in accordance with what was stipulated in the grant contract with NAD Bank.</p> <p><b>Management Response:</b> - Management agrees and is in the process of preparing a procedures manual for allocability and allowability of cost accounting records in order to be in accordance with the NAD Bank contract.</p>	<p>--</p>

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

**Findings for Financial Statement from prior year auditor for programs Rural Utilities Service Fund (10.760), and the Border Environmental Infrastructure Fund (66.418).**

**03-01 - Cash**

**Condition:** Bank Accounts maintained by the District are not reconciled regularly.

**Criteria:** Internal controls should be put in place to determine that the cash balances of all bank accounts tie to the reconciled cash balances of the District by fund.

**Effect:** Cash as reported in the District's financial statements can be misstated as to any specific fund.

**Recommendation:** Procedures should be implemented to require a monthly reconciliation of each bank account maintained by the District by the fund. The reconciled bank account balances by fund should be reconciled to cash maintained by the District across all funds.

**Note:** the prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected during the 2004-2005 fiscal year.

**03-02-Cash**

**Condition:** The total balance of all cash funds maintained by the District is not regularly reconciled to the balances of the cash accounts maintained in each fund.

**Criteria:** Internal controls should be put in place to determine that the cash balances of all funds tie to the reconciled cash balances of the District.

**Effect:** Cash as reported in the District's financial statements can be misstated as to any specific fund.

**Recommendation:** Procedures should be implemented to require a monthly reconciliation of the cash of each fund be done and the reconciled cash balance for all cash be maintained by the District.

**Note:** the prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected during the 2004-2005 fiscal year.

**03-03-Cash**

**Condition:** The total balance of all restricted cash funds maintained by the District is not regularly reconciled to the bank accounts and balances of the cash accounts maintained in each fund.

**Criteria:** Internal controls should be put in place to determine that the restricted cash balances in the bank accounts and across all funds tie to the reconciled cash balances of the District.

**Effect:** Cash as reported in the District's financial statements can be misstated as to any federal award and may not be restricted according to the provisions of the grantor lender.

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

**Findings for Financial Statement from prior year auditor for programs Rural Utilities Service Fund (10.760), and the Border Environmental Infrastructure Fund (66.418).**

**03-03-Cash Continued**

**Recommendation:** Procedures should be implemented to require a monthly reconciliation of the restricted cash in each bank account and of each fund, and then reconciled to cash balance for all cash maintained by the District.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected during the 2004-2005 fiscal year

**03-04-Accounts Receivable**

**Condition:** Currently the subsidiary ledgers maintained for accounts receivable for property taxes are not reconciled to the balance of the accounts receivable in the general fund.

**Criteria:** Internal controls should be put in place to determine that the accounts receivable account maintained by the general fund is properly stated.

**Effect:** The accounts receivable balance as reported in the District's financial statements could be misstated as to the general fund.

**Recommendation:** Procedures should be implemented to require a periodic reconciliation of the statement provided by Imperial County to the balance of the accounts receivable in the general fund.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected during the 2004-2005 fiscal year

**03-05: Utility Billings**

**Condition:** Currently unbilled utility service fees of the fiscal year are not accrued in the enterprise funds at the fiscal year end.

**Criteria:** Internal controls should be put in place to determine that accounts receivable for unbilled utility service fees have been accrued by each enterprise fund.

**Effect:** The unbilled utility service fees receivable balance as reported in the District's financial statements could be misstated as to any enterprise fund. Also, revenues as reported in the District's financial statements could be misstated as to any enterprise fund.

**Recommendation:** Procedures should be implemented to require an annual accrual of unbilled utility service fees and the corresponding unbilled utility service fees receivable accounts maintained in each enterprise fund. Procedures should be implemented to require an annual accrual of unbilled utility service fees maintained in each enterprise fund.

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

**Findings for Financial Statement from prior year auditor for programs Rural Utilities Service Fund (10.760), and the Border Environmental Infrastructure Fund (66.418).**

**03-05: Utility Billings Continued**

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected during the 2004-2005 fiscal year.

**03-06-Grants and Loans Receivable**

Condition: Grants and loans receivable are not accounted for in the period in which the revenues are earned.

**Criteria:** Internal controls should be put in place to determine that the accounts receivable account maintained by each fund is properly stated.

**Effect:** The accounts receivable balance, income of the governmental funds, or long-term liabilities of the enterprise funds could be misstated as to various grants, loans, or projects.

**Recommendation:** Procedures should be implemented to require a the maintenance of subsidiary ledgers used to account for grants and loans receivable by funding source, across funds, and by project. Those subsidiary ledgers should be reconciled on a periodic basis to grant income, loan income, loans payable, and corresponding expenditures for that period.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected during the 2004-2005 fiscal year

**03-07-Grants and Loans Payable**

Condition: Expenditures and expenses associated with grants and loans payable are not accounted for in the period in which the expenditures are made.

**Criteria:** Internal controls should be put in place to determine that the accounts payables, including general long-term debt of governmental funds and long-term debt of the enterprise funds, are recorded in the subsidiary ledger and general ledger of each fund.

**Effect:** The accounts payable balance as reported in the District's financial statements could be misstated as to any specific fund.

**Recommendation:** Procedures should be implemented to provide for the maintenance of subsidiary ledgers all grants and loans reported by each separate fund of the District. Those subsidiary ledgers should then be reconciled by fund, but grant or loan, by project, and across funds to help insure that accounts payable balances reported by each fund are correctly stated.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition continues for the 2003-2004 fiscal year.

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

**Findings for Financial Statement from prior year auditor for programs Rural Utilities Service Fund (10.760), and the Border Environmental Infrastructure Fund (66.418). Continued**

**03-08 - Debt Service**

**Condition:** Debt service repayments are made from the District's debt service fund, with funds provided by property taxes, investment earnings and monies transferred from other funds. Currently, the transactions within the debt service fund are not recorded until each year-end to properly record the principal and interest paid, and the source of the funds used to make the payments.

**Criteria:** Internal controls should be put in place to provide that the proper entries are made to the various funds and accounts groups of the District to properly record the debt service transactions.

**Effect:** The debt service transactions as reported in the District's interim financial statements can be misstated.

**Recommendation:** Procedures should be implemented to require that the proper entries are made to the various funds and accounts groups of the District to properly record the debt service transactions.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition continues for the 2003-2004 fiscal year.

**03-9-Travel Expenses**

**Condition:** Meals and incidental expenses are incorrectly recorded as travel reimbursements.

**Criteria:** Internal controls should be put in place to insure that benefits that exceed maximum federal per diem rates set by the Internal Revenue Code for non-accountable plan are either lowered to a range acceptable under a non-accountable plan, or accounted for as amounts taxable to the individual.

**Effect:** Exceeding the maximum reimbursement allowed for travel expenses, including but not limited to meals and incidentals, invalidates the non-accountable plan. Payroll withholdings for employees and related employer taxes can be understated, and payroll tax reports and information returns could be misstated.

**Recommendation:** Procedures should be implemented to require that per diems for travel expenses are accounted for as additions to the taxable wages of employees, and the appropriate payroll tax withholdings should be made, and the amounts paid to non-employees should be reported as nonemployee compensation on Form 1099.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected during the 2004-2005 fiscal year.

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

**Findings for Financial Statement from prior year auditor for programs Rural Utilities Service Fund (10.760), and the Border Environmental Infrastructure Fund (66.418). Continued**

**03-10 - EPA Construction Grants for Wastewater Treatment Works - CFDA No. 66.4418**

**Statement of Condition:** The District was awarded and expended grants from North American Development Bank (NADB) in prior and the current fiscal years for construction and transition assistance. The grants were made by NADB from its Border Environment Infrastructure Fund (BEIF), which passes-through funds received from the U.S. Environmental Protection Agency. It appears that certain covenants of the grant agreement regarding transition period reporting have not been met.

**Criteria:** Part III, Paragraph 10, of the NABD Construction and Transition Assistance Grant Agreement, Wastewater Treatment Plant Expansion Project, contains numerous reporting covenants. We were unable to determine if the quarterly and annual financial reports required by subparagraphs viii.c, viii.d, viii.f and viii.g were provided to NADB.

**Effect:** Failure to comply with all covenants imposed by granting agencies could affect the District's ability to obtain future funding.

**Recommendation:** Establish a system to monitor and comply with the reporting requirements of all grant agreements.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected during the 2004-2005 fiscal year.

**03-11 -Surveys, Studies, Investigations and Special Purpose Grants -CFDA No. 66.418**

**Statement of Condition:** The District was awarded and expended grants from North American Development Bank (NADB) in prior and the current fiscal years for construction and transition assistance. The grant was made by NADB from its Border Environment Infrastructure Fund (BEIF), which passes-through funds received from the U.S. Environmental Protection Agency. It appears that transition period debt service coverage of the District's Wastewater Fund has not been met.

**Criteria:** Part III, Paragraph 10.xi of the NABD Construction and Transition Assistance Grant Agreement, Wastewater Treatment Plant Expansion Project, contains a provision that requires the District to maintain the revenues of its wastewater Fund at a level that achieves a debt service coverage ratio of 1.2 during the current fiscal year and throughout the BEIF transition period. It appears that the debt coverage provision was not met during the current fiscal year, and is calculated at 1.13.

**Effect:** Failure to maintain an adequate level of debt coverage could affect the viability of the Wastewater Fund and cause the District to fail to comply with its grant agreement with NADB.

**Recommendation:** Review the District's current wastewater fund rates and the expenses of the wastewater fund to determine what action is needed to either raise revenues or reduce operating expenses to allow the Fund to meet the debt service coverage ratio.

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

**Findings for Financial Statement from prior year auditor for programs Rural Utilities Service Fund (10.760), and the Border Environmental Infrastructure Fund (66.418).**

**03-11** -Surveys, Studies, Investigations and Special Purpose Grants -CFDA No. 66.418. Continued

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition continues for the 2003-2004 fiscal year.

**03-12** - Water and Waste Disposal Systems for Rural Communities- CFDA No. 10.760; Loans No. 04, 08, and 10

**Statement of Condition:** Source documents that support expenditures of federal funds were not made available to the auditor in a timely manner, or were not able to be located by the District.

**Criteria:** Paragraphs M and N of United States Department of Rural Utilities Agreements states that the "grantee agrees that grantee will: provide financial management systems which will include: accurate, current, and complete disclosure of the financial results of each grant ... Records which identify adequately the source and application of funds for grant supported activities. Those records shall contain information pertaining to grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays, and income ... Accounting records supported by source documentation. Retain financial records, supporting documents, statistical records, and all other records pertinent to the grant for a period of at least three years after the grant closing."

**Effect:** Failure to comply with all covenants imposed by granting agencies could affect the District's ability to obtain future funding.

**Recommendation:** Establish a system to monitor and comply with the provisions to provide an adequate financial management system.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected in the 2004-2005 fiscal year.

**03-13**- Water and Waste Disposal Systems for Rural Communities- CFDA No. 10.760; Loans No. 5-4,08, and 10

**Statement of Condition:** Grants and loans receivable are not accounted for in the period in which the revenues are earned.

**Criteria:** Paragraph M of United States Department of Rural Utilities Agreements states that the "grantee agrees that grantee will: provide financial management systems which will include: accurate, current, and complete disclosure of the financial results of each grant". Records which identify adequately the source and application of funds for grant supported activities. Those records shall contain information pertaining to grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays, and income."

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

**Findings for Financial Statement from prior year auditor for programs Rural Utilities Service Fund (10.760), and the Border Environmental Infrastructure Fund (66.418).**

**03-13-** Water and Waste Disposal Systems for Rural Communities- CFDA No. 10.760; Loans No. 5, 4, 8, and 10. Continued

**Effect:** Failure to comply will all covenants imposed by granting agencies could affect the District's ability to obtain future funding.

**Recommendation:** Establish a system to monitor and comply with the provisions to provide an adequate financial management system.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected in the 2004-2005 fiscal year.

**03-14:** Water and Waste Disposal Systems for Rural Communities -CFDA No. 10.760; Loans No. 04, 08, and 10

**Statement of Condition:** Expenditures and expenses associated with grants and loans payable are not accounted for in the period in which the expenditures are made.

**Criteria:** Paragraph M of United States Department of Rural Utilities Agreements states that the grantee agrees that grantee will: provide financial management systems which will include: accurate, current, and complete disclosure of the financial results of each grant.... Records which identify adequately the source and application of funds for grant supported activities. Those records shall contain information pertaining to grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays, and income".

**Effect:** Failure to comply will all covenants imposed by granting agencies could affect the District's ability to obtain future funding.

**Recommendation:** Establish a system to monitor and comply with the provisions to provide an adequate financial management system.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected in the 2004-2005 fiscal year.

**03-15 -** Water and Waste Disposal Systems for Rural Communities -CFDA No. 10.760; Loans No. 04, 08, and 10

**Statement of Condition:** Compliance with provisions of grants and loans in relationship to debt service requirements was not able to be established.

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2004**

**Findings for Financial Statement from prior year auditor for programs Rural Utilities Service Fund (10.760), and the Border Environmental Infrastructure Fund (66.418).**

**03-15 - Water and Waste Disposal Systems for Rural Communities -CFDA No. 10.760; Loans No. 04, 08, and 10. Continued**

**Criteria:** Paragraph M of United States Department of Rural Utilities Agreements states that the grantee agrees that grantee will: provide financial management systems which will include: accurate, current, and complete disclosure of the financial results of each grant.... Records which identify adequately the source and application of funds for grant supported activities. Those records shall contain information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays, and income.'

**Effect:** Failure to comply will all covenants imposed by granting agencies could affect the District's ability to obtain future funding.

**Recommendation:** Establish a system to monitor and comply with the provisions to provide an adequate financial management system.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition was corrected in the 2004-2005 fiscal year.

**02-04 - Debt Service**

**Condition:** Debt service repayments are made from the District's debt service fund, with funds provided by property taxes, investment earnings and monies transferred from other funds. Currently, the transactions within the debt service fund are not recorded until each year-end to properly record the principal and interest paid, and the source of the funds used to make the payments.

**Criteria:** Internal controls should be put in place to provide that the proper entries are made to the various funds and accounts groups of the District to properly record the debt service transactions.

**Effect:** The debt service transactions as reported in the District's interim financial statements can be misstated.

**Recommendation:** Procedures should be implemented to require that the proper entries are made to the various funds and accounts groups of the District to properly record the debt service transactions.

**Note:** The prior auditor considered this a material weakness, however, no measurable evidence can determine that this finding is nothing more than a management comment.

**Status:** This condition continues for the 2003-2004 fiscal year.

**HEBER PUBLIC UTILITY DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2004**

**Note 1. Summary of Significant Accounting Policies**

The accompanying schedule of expenditures and federal awards includes the federal activity of the Heber Public Utility District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.