

HEBER PUBLIC UTILITY DISTRICT

**GENERAL PURPOSE
FINANCIAL STATEMENTS**

**For the Year Ended
June 30, 2005**

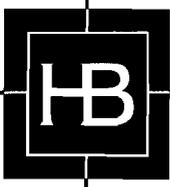
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FINANCIAL SECTION



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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, 2005, 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, 2005, 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 24, 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 43 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 24, 2006

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2005**

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, 2005. 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 2004-2005 fiscal years by \$10,636,595 (*Net Assets*). Of those net assets, \$471,411 is unrestricted. The total amount of non current liabilities for governmental activities is \$1,333,000. Total Restricted Net Assets for the District is \$10,165,184.
- As of June 30, 2005, the District's governmental funds reported total ending fund balances of \$361,051, a decrease of \$343,390 in comparison with the prior year which had an increase of \$680,694.
- At the end of the current fiscal year, unreserved fund balance for the General Fund is \$374,941 or 21.2% of total General Fund expenditures.
- At the end of the current fiscal year, the Business Type Activities assets exceeded its liabilities by \$6,181,785, an increase of \$ 1,132,025 from the prior year. The prior year had a decrease of \$109,848.
- The District's total long-term debt increased by the amount of \$145,127 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, 2005**

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, 2005**

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 to 36 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 \$10,636,595 (see Table 1) at the close of the current fiscal year.

The portion of the District's net assets reflects unrestricted net assets of \$471,411. Investment in capital assets (e.g., infrastructures, improvements, and construction in progress); less any related outstanding debt used to acquire those assets is \$9,802,499. 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 \$362,685. The portion of the restricted net assets is the aggregate amount for repairs, replacement and maintenance reserves.

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
June 30, 2005 and 2004**

	2005	2004
Current Assets:		
Cash and Investments	\$ 1,163,933	\$ 1,161,570
Receivables	330,129	645,392
Notes Receivable	56,660	--
Capital Assets	<u>12,334,212</u>	<u>11,349,790</u>
Total Assets	<u>\$ 13,884,934</u>	<u>\$ 13,156,752</u>
Current and Other Liabilities	768,593	\$ 842,090
Long-Term Liabilities	<u>2,479,746</u>	<u>2,331,712</u>
Total Liabilities	<u>3,248,339</u>	<u>3,173,802</u>
Net Assets:		
Invested in Capital Assets, Net of Related debt	9,802,499	8,632,193
Restricted	362,685	423,607
Unrestricted	<u>471,411</u>	<u>927,150</u>
Total Net Assets	<u>\$ 10,636,595</u>	<u>\$ 9,982,950</u>

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2005**

**Table 2 - Heber Public Utility District Changes in Net Assets
for the Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Program Revenues:		
Charge for Services	\$ 1,000,625	\$ 962,846
Water Capacity	3,000	15,000
Waste-Water Capacity	18,500	153,500
Royalties & Services	43,494	12,713
Grants and Contributions	32,728	162,120
Capital Grants & Contributions	<u>1,063,851</u>	<u>3,960,849</u>
	2,162,198	5,267,028
General Revenues		
Property tax	177,477	272,095
Note Receivable	62,500	--
Other revenue	46,519	51,683
Sale of fixed Assets	--	<u>163,241</u>
Total revenues	<u>2,448,694</u>	<u>5,754,047</u>
Program Expenses:		
General Government	531,880	527,286
Water Capacity	--	150,000
Water	461,556	437,875
Wastewater	585,876	525,346
Solid Waste	<u>215,736</u>	<u>233,567</u>
Total expenses	<u>1,795,048</u>	<u>1,874,074</u>
Excess (Deficiencies) Before Special Items and Transfers	653,646	3,879,973
Transfers in (out)	--	--
Change in Net Assets:	<u>\$ 653,646</u>	<u>\$ 3,879,973</u>

Governmental Activities

Governmental activities decreased the District's net assets by (\$478,380) for the year ended June 30, 2005, thereby accounting for (73.1%) 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 addition of \$1,297,859 in fixed assets.
- Operating grants and contributions served the construction projects, representing 43.4% of the District's program revenue for governmental activities, and are tied to capital projects.
- The District recorded \$62,500 in a note receivable given to Desert Sunrise Apartments for the current fiscal year.

Business-type Activities

The Business-type activities change in net assets increased \$1,132,025.

- Depreciation expense for business type activities amounted to \$303,218 for the fiscal year.
- Revenues for service charges amounted to \$1,000,625.

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2005**

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, 2005, The District's governmental funds reported total fund balances of \$361,051, a 48.8% decrease in comparison with the prior year. The unreserved fund balance, which is available to meet the District's future capital projects and future obligations, is \$374,941. The remaining portion of the fund balance 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 \$1,548,718 at June 30, 2005. Expenditures for government functions totaled \$1,769,986 at June 30, 2005.

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, 2005, the District's investment in capital assets for its governmental and business-type activities amounted to \$12,334,212 (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)

	2005 Total Fixed Assets	2004 Total Fixed Assets
Land	\$ 219,031	\$ 219,031
Infrastructure & Improvements	12,067,124	11,068,826
Furniture and Equipment	<u>48,057</u>	<u>62,233</u>
Total	<u>\$ 12,334,212</u>	<u>\$ 11,349,790</u>

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2005**

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

- Water Treatment Plant Project construction in progress: \$4,451,417.
- Sewer Collection System construction in progress: \$637,033.

Long-Term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$2,531,713 which is described in the table below.

Table 4 - The District's Outstanding Debt

	2005	2004
1968 Sewer Bonds	\$ 24,000	\$ 30,000
1972 Water Bonds	33,000	38,000
Capital Lease Obligation	--	5,737
Trentham Water Line Note Payable	188,213	196,349
2002 Water enterprise Certificates of Participations	1,133,000	1,153,000
2005 U.S.D.A. Loan	200,000	--
2000 Wastewater enterprise Certificates of Participation	<u>953,500</u>	<u>963,500</u>
Total	<u>\$ 2,531,713</u>	<u>\$ 2,386,586</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, 2005**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 555,776	\$ 608,157	\$ 1,163,933
Receivables	249,159	80,970	330,129
Noncurrent assets:			
Note receivables	56,660	--	56,660
Capital assets net of accumulated depreciation			
Land	195,031	24,000	219,031
Infrastructure	60,306	--	60,306
Structures and improvements	5,088,450	6,918,368	12,006,818
Equipment	20,472	27,585	48,057
Total assets	<u>6,225,854</u>	<u>7,659,080</u>	<u>13,884,934</u>
LIABILITIES			
Current liabilities:			
Cash overdraft	--	61,214	61,214
Accounts payable	304,980	97,947	402,927
Deferred revenue	20,200	--	20,200
Accrued payroll	44,536	67,703	112,239
Accrued expenses	741	--	741
Noncurrent liabilities:			
Customer deposits payable	67,587	51,718	119,305
Due within one year	21,984	29,983	51,967
Due in more than one year	1,311,016	1,168,730	2,479,746
Total liabilities	<u>1,771,044</u>	<u>1,477,295</u>	<u>3,248,339</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,031,259	5,771,240	9,802,499
Restricted for:			
Special revenue	--	362,685	362,685
Unrestricted	423,551	47,860	471,411
Total net assets	<u>\$ 4,454,810</u>	<u>\$ 6,181,785</u>	<u>\$ 10,636,595</u>

**HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Asset		
		Royalties & Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business Type Activities	
Primary Government:							
Governmental activities							
General government	\$ 531,880	\$ 43,494	\$ --	\$ 1,063,851	\$ 575,465	\$ --	\$ 575,465
Water Capacity	--	3,000	--	--	3,000	--	3,000
Waste Water Capacity	--	18,500	--	--	18,500	--	18,500
Total Governmental Activities	<u>531,880</u>	<u>64,994</u>	<u>--</u>	<u>1,063,851</u>	<u>596,965</u>	<u>--</u>	<u>596,965</u>
Business activities							
Water	461,556	432,190	32,728	--	--	3,362	3,362
Wastewater	585,876	341,045	--	--	--	(244,831)	(244,831)
Solid Waste	215,736	227,390	--	--	--	11,654	11,654
Total Business Type Activities	<u>1,263,168</u>	<u>1,000,625</u>	<u>32,728</u>	<u>--</u>	<u>--</u>	<u>(229,815)</u>	<u>(229,815)</u>
General revenues:							
Property tax					177,477	--	177,477
Note Revenue					62,500	--	62,500
Other revenue					42,396	4,123	46,519
Transfers in (out)					(1,357,718)	1,357,718	--
Total general revenues					<u>(1,075,345)</u>	<u>1,361,841</u>	<u>286,496</u>
Change in net assets					(478,380)	1,132,026	653,646
Net assets - beginning					<u>4,933,189</u>	<u>5,049,761</u>	<u>9,982,950</u>
Net assets - ending					<u>\$ 4,454,810</u>	<u>\$ 6,181,785</u>	<u>\$ 10,636,595</u>

**HEBER PUBLIC UTILITY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005**

	<u>General</u>	<u>Water Capacity</u>	<u>Wastewater Capacity</u>	<u>Water Capital Projects</u>	<u>Wastewater Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash	\$ --	\$ 405,682	\$ 222,865	\$ 27,011	\$ --	\$ 15,823	\$ 671,381
Investments	--	--	--	--	--	--	--
Accounts receivables	<u>17,714</u>	<u>--</u>	<u>--</u>	<u>155,880</u>	<u>69,628</u>	<u>97</u>	<u>243,319</u>
Total Assets	<u>\$ 17,714</u>	<u>\$ 405,682</u>	<u>\$ 222,865</u>	<u>\$ 182,891</u>	<u>\$ 69,628</u>	<u>\$ 15,920</u>	<u>\$ 914,700</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 19,303	\$ --	\$ --	\$ 212,701	\$ 69,628	\$ 2,108	\$ 303,740
Accrued expenses	35,464	--	--	--	--	12,890	48,354
Bank overdraft	115,605	--	--	--	--	--	115,605
Deferred revenue	--	10,100	10,100	--	--	--	20,200
Deposits from developers	<u>65,750</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>65,750</u>
Total Liabilities	<u>236,122</u>	<u>10,100</u>	<u>10,100</u>	<u>212,701</u>	<u>69,628</u>	<u>14,998</u>	<u>553,649</u>
FUND BALANCES							
Reserved for:							
Debt service	--	--	--	--	--	15,920	15,920
Capital outlay	--	--	--	(29,810)	--	--	(29,810)
Unreserved, reported in							
General fund	(218,408)	--	--	--	--	--	(218,408)
Special revenue funds	<u>--</u>	<u>395,582</u>	<u>212,765</u>	<u>--</u>	<u>--</u>	<u>(14,998)</u>	<u>593,349</u>
Total Fund Balances	<u>(218,408)</u>	<u>395,582</u>	<u>212,765</u>	<u>(29,810)</u>	<u>--</u>	<u>922</u>	<u>361,051</u>
Total Liabilities & Fund Equity	<u>\$ 17,714</u>	<u>\$ 405,682</u>	<u>\$ 222,865</u>	<u>\$ 182,891</u>	<u>\$ 69,628</u>	<u>\$ 15,920</u>	<u>\$ 914,700</u>

**HEBER PUBLIC UTILITY DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2005**

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

Total fund balance - governmental funds	\$ 361,051
Long-term Receivables, including notes receivable, are not due and payable in the current period and therefore are not reported in the fund.	62,500
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. The cost of the assets is \$5,592,499 and the accumulated depreciation is \$228,241	5,364,259
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,333,000)</u>
Total net assets - governmental activities	<u>\$ 4,454,810</u>

1,333,000

**HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2005**

	<u>General</u>	<u>Water Capacity</u>	<u>Wastewater Capacity</u>	<u>Water Capital Projects</u>	<u>Wastewater Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUE							
Property taxes	\$ 177,477	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 177,477
Interest	1,669	9,258	11,361	25	--	--	22,313
Royalties	6,394	--	--	--	--	--	6,394
Charges for Service	37,100	3,000	18,500	--	--	--	58,600
Loans	--	--	--	200,000	--	--	200,000
Grants	--	--	--	488,133	575,718	--	1,063,851
Other Revenue	<u>20,083</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>20,083</u>
Total Revenue	<u>242,723</u>	<u>12,258</u>	<u>29,861</u>	<u>688,158</u>	<u>575,718</u>	<u>--</u>	<u>1,548,718</u>
EXPENDITURES							
General Government	395,152	--	--	--	--	62,457	457,609
Capital outlay	<u>--</u>	<u>--</u>	<u>--</u>	<u>751,324</u>	<u>561,053</u>	<u>--</u>	<u>1,312,377</u>
Total Expenditures	<u>395,152</u>	<u>--</u>	<u>--</u>	<u>751,324</u>	<u>561,053</u>	<u>62,457</u>	<u>1,769,986</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(152,429)</u>	<u>12,258</u>	<u>29,861</u>	<u>(63,166)</u>	<u>14,665</u>	<u>(62,457)</u>	<u>(221,268)</u>
OTHER FINANCING SOURCES (USES)							
Operating Transfers In	--	150,000	--	--	--	222,854	372,854
Operating Transfers Out	<u>(266,637)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(228,339)</u>	<u>(494,976)</u>
Total Other Financing Sources (Uses)	<u>(266,637)</u>	<u>150,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(5,485)</u>	<u>(122,122)</u>
Net change in fund balances	(419,066)	162,258	29,861	(63,166)	14,665	(67,942)	(343,390)
Fund Balance (Deficit), July 1	<u>200,658</u>	<u>233,324</u>	<u>182,904</u>	<u>(33,356)</u>	<u>(14,665)</u>	<u>68,864</u>	<u>704,441</u>
Fund Balance (Deficit), June 30	<u>\$ (218,408)</u>	<u>\$ 395,582</u>	<u>\$ 212,765</u>	<u>\$ (29,810)</u>	<u>\$ --</u>	<u>\$ 922</u>	<u>\$ 361,051</u>

**HEBER PUBLIC UTILITY DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005**

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

Net change in fund balances - governmental funds		\$ (343,390)
<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>		
	Finished Capital Project	(1,307,043)
	Depreciation expense	(10,217)
	Capital outlay	<u>1,297,858</u> (19,402)
Long-term receivables, including notes receivables, increased during the year.		62,500
Long-term liabilities, including bonds payable , increased during the year.		(200,000)
Long-term liabilities, including bonds payable , decreased during the year.		<u>21,912</u>
Change in net assets - governmental activities		<u>\$ (478,380)</u>

**HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005**

	<u>Water</u>	<u>Wastewater</u>	<u>Soild Waste</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and investments	\$ 292,196	\$ 315,961	\$ --	\$ 608,157
Receivables	35,249	25,930	19,791	80,970
Total Current Assets	<u>327,445</u>	<u>341,891</u>	<u>19,791</u>	<u>689,127</u>
Property and Equipment, net	<u>3,108,723</u>	<u>3,861,230</u>	<u>--</u>	<u>6,969,953</u>
Total Noncurrent Assets	<u>3,108,723</u>	<u>3,861,230</u>	<u>--</u>	<u>6,969,953</u>
Total Assets	<u>\$ 3,436,168</u>	<u>\$ 4,203,121</u>	<u>\$ 19,791</u>	<u>\$ 7,659,080</u>
LIABILITIES				
Current Liabilities				
Cash overdaft	\$ --	\$ --	\$ 61,214	\$ 61,214
Accounts payable	11,360	69,605	16,982	97,947
Wages and benefits payable	35,194	32,502	7	67,703
Deposits	25,466	25,054	1,198	51,718
Current portion - long term debt	13,983	16,000	--	29,983
Total Current Liabilities	<u>86,003</u>	<u>143,161</u>	<u>79,401</u>	<u>308,565</u>
Certificates of participations	<u>207,230</u>	<u>961,500</u>	<u>--</u>	<u>1,168,730</u>
Total Noncurrent Liabilities	<u>207,230</u>	<u>961,500</u>	<u>--</u>	<u>1,168,730</u>
Total Liabilities	<u>293,233</u>	<u>1,104,661</u>	<u>79,401</u>	<u>1,477,295</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,887,510	2,883,730	--	5,771,240
Restricted	156,223	163,462	43,000	362,685
Unrestricted	<u>99,202</u>	<u>51,268</u>	<u>(102,610)</u>	<u>47,860</u>
Total Net Assets	<u>3,142,935</u>	<u>3,098,460</u>	<u>(59,610)</u>	<u>6,181,785</u>
Total Liabilities and Fund Equity	<u>\$ 3,436,168</u>	<u>\$ 4,203,121</u>	<u>\$ 19,791</u>	<u>\$ 7,659,080</u>

HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2005

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
OPERATING REVENUE				
Charges for Service	\$ 432,190	\$ 341,045	\$ 227,390	\$ 1,000,625
Total Operating Revenue	<u>432,190</u>	<u>341,045</u>	<u>227,390</u>	<u>1,000,625</u>
OPERATING EXPENSES				
Salaries and Benefits	167,961	89,307	--	257,268
Materials and Supplies	75,028	37,536	1,225	113,789
Contract and Other Services	101,242	207,500	214,511	523,253
Depreciation Expense	<u>96,279</u>	<u>206,939</u>	<u>--</u>	<u>303,218</u>
Total Operating Expenses	<u>440,510</u>	<u>541,282</u>	<u>215,736</u>	<u>1,197,528</u>
Operating Income (Loss)	<u>(8,320)</u>	<u>(200,237)</u>	<u>11,654</u>	<u>(196,903)</u>
NONOPERATING REVENUE (EXPENSE)				
Interest Income	259	640	--	899
Grant funds and Other Revenue	32,728	3,224	--	(35,952)
Interest Expense	<u>(21,046)</u>	<u>(44,594)</u>	<u>--</u>	<u>(65,640)</u>
Total Non-Operating Revenue (Expense)	<u>11,941</u>	<u>(40,730)</u>	<u>--</u>	<u>(28,789)</u>
Income (Loss) Before Operating Transfers	<u>3,621</u>	<u>(240,967)</u>	<u>11,654</u>	<u>(225,692)</u>
Operating Transfers In (Out)	<u>1,221,364</u>	<u>136,353</u>	<u>--</u>	<u>1,357,717</u>
Change in Net Assets	1,224,985	(104,614)	11,654	1,132,025
Net Assets, July 1	<u>1,917,950</u>	<u>3,203,074</u>	<u>(71,264)</u>	<u>5,049,760</u>
Net Assets, June 30	<u>\$ 3,142,935</u>	<u>\$ 3,098,460</u>	<u>\$ (59,610)</u>	<u>\$ 6,181,785</u>

**HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2005**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from users	\$ 388,295	\$ 297,682	\$ 227,499	\$ 913,476
Cash received from operating activities	42,485	42,490		84,975
Cash paid to suppliers	(155,697)	(168,972)	(198,372)	(523,041)
Cash paid to employees	<u>(155,790)</u>	<u>(85,770)</u>	<u>--</u>	<u>(241,560)</u>
NET CASH PROVIDED BY OPERATIONS	<u>119,293</u>	<u>85,430</u>	<u>29,127</u>	<u>233,850</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Transfers In (Out)	<u>497</u>	<u>36,120</u>	<u>--</u>	<u>36,617</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>497</u>	<u>36,120</u>	<u>--</u>	<u>36,617</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest expense	(19,271)	(43,311)	--	(62,582)
Bond principal payments	<u>(10,045)</u>	<u>(11,912)</u>	<u>--</u>	<u>(21,957)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(29,316)</u>	<u>(55,223)</u>	<u>--</u>	<u>(84,539)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on cash and investments	<u>259</u>	<u>640</u>	<u>--</u>	<u>899</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>259</u>	<u>640</u>	<u>--</u>	<u>899</u>
CASH FLOWS FROM OTHER ACTIVITIES				
Grant and other revenue	<u>32,728</u>	<u>3,224</u>	<u>--</u>	<u>35,952</u>
NET CASH PROVIDED BY OTHER ACTIVITIES	<u>32,728</u>	<u>3,224</u>	<u>--</u>	<u>35,952</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>123,461</u>	<u>70,191</u>	<u>29,127</u>	<u>222,779</u>
CASH AND CASH EQUIVALENTS (OVERDRAFT) - BEGINNING OF YEAR	<u>168,735</u>	<u>245,770</u>	<u>(90,341)</u>	<u>324,164</u>
CASH AND CASH EQUIVALENTS (OVERDRAFT) - END OF YEAR	<u>\$ 292,196</u>	<u>\$ 315,961</u>	<u>\$ (61,214)</u>	<u>\$ 546,943</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (8,320)	\$ (200,237)	\$ 11,654	\$ (196,903)
Adjustments to Reconcile operating Income To Net Cash Provided by Operations				
Depreciation and amortization	96,279	206,939	--	303,218
Increase (Decrease) in receivables	(1,410)	(873)	109	(2,174)
Increase in accounts payable	20,573	76,064	17,364	114,001
Increase in payroll liabilities payable	<u>12,171</u>	<u>3,537</u>	<u>--</u>	<u>15,708</u>
NET CASH PROVIDED BY OPERATIONS	<u>\$ 119,293</u>	<u>\$ 85,430</u>	<u>\$ (5,601)</u>	<u>\$ 233,850</u>

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2005

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 Corporation (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, 2005

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, 2005

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, 2005

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, 2005

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting (Continued)

For its business-type activities and enterprise funds, the District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements (Statements and Interpretations), constitutes (GAAP) for governments units.

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, 2005

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 estimated 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, 2005**

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, 2005 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, 2005

NOTE 3. CASH AND INVESTMENTS (Continued)

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, 2005 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, 2005**

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, 2005:

	Category			Bank Balances	Carrying Amount
	1	2	3		
Deposits					
Cash In County Treasury	\$ 15,823	\$ --	\$ --	\$ 15,823	\$ 15,823
Demand deposits	<u>1,148,110</u>	<u>--</u>	<u>--</u>	<u>1,086,896</u>	<u>1,148,110</u>
	<u>\$1,163,933</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,102,719</u>	<u>\$1,163,933</u>

Cash and investments are reported as follows on the Statement of Net Assets
Cash and investments \$1,163,933

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, 2005**

NOTE 5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Land	\$ 195,031	\$ --	\$ --	\$ 195,031
Buildings	250,010	--	--	250,010
Machinery and equipment	45,691	--	--	45,691
Furniture and fixtures	13,318	--	--	13,318
Construction in process	<u>5,097,634</u>	<u>1,297,859</u>	<u>1,307,043</u>	<u>5,088,450</u>
Total capital assets	<u>5,601,684</u>	<u>1,297,859</u>	<u>1,307,043</u>	<u>5,592,500</u>
Less accumulated depreciation for:				
Buildings	186,759	2,945	--	189,704
Machinery and equipment	25,182	1,447	--	26,629
Furniture and fixtures	<u>6,083</u>	<u>5,825</u>	--	<u>11,908</u>
Total accumulated depreciation	<u>218,024</u>	<u>10,217</u>	--	<u>228,241</u>
Governmental activities capital assets, net	<u>\$ 5,383,659</u>	<u>\$ 1,287,642</u>	<u>\$ 1,307,043</u>	<u>\$ 5,364,259</u>
Business-type activities:				
Land	\$ 24,000	\$ --	\$ --	\$ 24,000
Structures & Improvements	76,500	--	--	76,500
Machinery and equipment	127,771	--	--	127,771
Infrastructure	<u>8,446,843</u>	<u>1,307,043</u>	--	<u>9,753,886</u>
Total capital assets	<u>8,675,114</u>	<u>1,307,043</u>	--	<u>9,982,157</u>
Less accumulated depreciation for:				
Structures & Improvements	76,500	--	--	76,500
Machinery and Equipment	93,280	6,907	--	100,187
Infrastructure	<u>2,539,203</u>	<u>296,314</u>	--	<u>2,835,517</u>
Total accumulated depreciation	<u>\$ 2,708,983</u>	<u>303,218</u>	--	<u>\$ 3,012,201</u>
Business-type activities capital assets, net	<u>\$ 5,966,131</u>	<u>\$ 1,003,825</u>	<u>\$ --</u>	<u>\$ 6,969,956</u>

Depreciation

Depreciation expense was charged to functions as follows:

Governmental Activities

General Government \$ 10,217

Business-type Activities

Water \$ 96,279
Wastewater 206,939
Solid Waste --
\$ 303,218

HEBER PUBLIC UTILITY DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005**

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, 2005:

General Obligation Bonds	\$ 57,000
Note Payable – Fonzie Trentham	188,213
Wastewater Enterprise Certificated of Participation Loan 2000	953,500
2005 U.S.D.A. Loan	200,000
Water Enterprise Certificates of Participation Loan 2002	1,133,000

General Obligation Bonds

The following is a summary of bond transactions of the Heber Public Utility District for the year ended June 30, 2005:

	1968 Sewer Bonds	1972 Water Bonds	Total
Bonds Payable – July 1, 2004	\$ 30,000	\$ 38,000	\$68,000
Bonds currently retired	<u>(6,000)</u>	<u>(5,000)</u>	<u>(11,000)</u>
Bonds Payable – June 30, 2005	<u>\$ 24,000</u>	<u>\$ 33,000</u>	<u>\$57,000</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.

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, 2005 was \$24,000.

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2005

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 \$5,000, 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 \$6,000 with the year ending June 30, 2009. The unpaid balance at June 30, 2005 was \$33,000.
- 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 2005 was \$188,213. The current portion of the long-term debt is \$ 8,983.
- Installment Sale Agreement – 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, 2005 was \$953,500.
- 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, 2005 was \$1,133,000.
- Additional Installment Sale Agreement Loan – 2002 Water and Sewer System Improvement Project – Added Inspection and Contingencies loan with a principal of \$200,000 was issued in May 12, 2005. The interest rate is 4.25% and maturing May 12, 2045. The purpose of this loan was to provide funding to pay additional costs and contingencies from the project. Principle payments are due May 12 of every year. The principle amount outstanding at June 30, 2005 is \$200,000.

HEBER PUBLIC UTILITY DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005**

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 Bonds		Loans Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 11,000	\$ 2,648	\$ 8,983	\$ 18,419	\$ 31,984	\$ 101,943
2007	11,000	2,113	9,924	17,478	32,068	100,508
2008	11,000	1,578	10,918	16,485	37,156	99,070
2009	11,000	1,043	12,107	15,296	37,248	97,404
2010 - 2014	13,000	900	82,384	54,629	197,756	461,651
2015 - 2019	--	--	63,897	9,177	260,707	410,325
2020 - 2024	--	--	--	--	292,341	349,249
2025 - 2029	--	--	--	--	333,816	279,479
2030 - 2034	--	--	--	--	380,625	200,816
2035 - 2040	--	--	--	--	437,610	110,687
2041 - 2045	--	--	--	--	245,189	21,935
	<u>\$ 57,000</u>	<u>\$ 8,282</u>	<u>\$ 188,213</u>	<u>\$ 131,484</u>	<u>\$ 2,286,500</u>	<u>\$ 2,233,067</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, 2005 consisted of the following:

Transfers in	General & Park Fund	Transfers Out				Water, Wastewater And Solid Waste	Total
		Water Wastewater Capacity	Capital Projects Funds	Debt Services	Water, Wastewater And Solid Waste		
General & Park Fund	\$ 57,830	\$ --	\$ --	\$ --	\$ --	\$ 57,830	
Water, Wastewater Capacity	150,000	--	--	--	--	150,000	
Capital Project Funds	--	--	--	--	--	--	
Debt Service	58,806	--	--	--	106,218	165,024	
Water, Wastewater, and Solid Waste	--	--	--	62,120	--	62,120	
Total	<u>\$ 266,636</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 62,120</u>	<u>\$ 106,218</u>	<u>\$ 434,974</u>	

HEBER PUBLIC UTILITY DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005**

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, 2005, the District's annual pension cost including employees' contribution was \$ 34,181 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, 2005.

Three-Year Trend Information for Miscellaneous Plan

Fiscal Year June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	25,502	100%	--
2004	21,872	100%	--
2005	34,181	100%	--

HEBER PUBLIC UTILITY DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005**

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. DEFICIT NET ASSETS AND FUND BALANCES

As of June 30, 2005, the following funds have a deficit:

- The General Fund has a fund deficit \$218,408.
- The Park Fund has a fund deficit of \$14,998.
- Wastewater Capital Project Fund has a fund deficit of \$29,810.
- Solid Waste Fund has an unrestricted net asset deficit of \$102,610.

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, 2005**

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.

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, 2005**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUE			
Property taxes	\$ 266,650	\$ 177,477	\$ (89,173)
Interest	3,500	1,669	(1,831)
Royalties	7,000	6,394	(606)
Charges for Service	--	37,100	37,100
Other Revenue	<u>2,300</u>	<u>20,083</u>	<u>17,783</u>
Total Revenue	<u>279,450</u>	<u>242,723</u>	<u>(36,727)</u>
EXPENDITURES			
General Government	<u>385,964</u>	<u>395,153</u>	<u>(9,189)</u>
Total General Government	<u>385,964</u>	<u>395,153</u>	<u>(9,189)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(106,514)</u>	<u>(152,430)</u>	<u>(45,916)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers Out	<u>--</u>	<u>(266,637)</u>	<u>(266,637)</u>
Total Other Financing Sources (Uses)	<u>--</u>	<u>(266,637)</u>	<u>(266,637)</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>(106,514)</u>	<u>(419,067)</u>	<u>(312,553)</u>
Fund Balance, July 1	<u>200,658</u>	<u>200,658</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 94,144</u>	<u>\$ (218,409)</u>	<u>\$ (312,553)</u>

**HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET TO ACTUAL
WATER CAPACITY FUND
Year Ended June 30, 2005**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUE			
Property taxes	\$ --	\$ --	\$ --
Interest	--	9,258	9,258
Royalties	--	--	--
Charges for Service	150,000	3,000	(147,000)
Loans	--	--	--
Grants	--	--	--
Sale of fixed asset	--	--	--
Other Revenue	--	--	--
Total Revenue	<u>150,000</u>	<u>12,258</u>	<u>(137,742)</u>
EXPENDITURES			
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>150,000</u>	<u>12,258</u>	<u>(137,742)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	--	150,000	150,000
Operating Transfers Out	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>150,000</u>	<u>150,000</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>150,000</u>	<u>162,258</u>	<u>12,258</u>
Fund Balance, July 1	<u>233,324</u>	<u>233,324</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 383,324</u>	<u>\$ 395,582</u>	<u>\$ 12,258</u>

**HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET TO ACTUAL
WASTEWATER CAPACITY FUND
Year Ended June 30, 2005**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUE			
Property taxes	\$ --	\$ --	\$ --
Interest	--	11,361	11,361
Royalties	--	--	--
Charges for Service	150,000	18,500	(131,500)
Loans	--	--	--
Grants	--	--	--
Sale of fixed asset	--	--	--
Other Revenue	--	--	--
Total Revenue	<u>150,000</u>	<u>29,861</u>	<u>(120,139)</u>
EXPENDITURES			
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>150,000</u>	<u>29,861</u>	<u>(120,139)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	--	--	--
Operating Transfers Out	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>150,000</u>	<u>29,861</u>	<u>(120,139)</u>
Fund Balance, July 1	<u>182,904</u>	<u>182,904</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 332,904</u>	<u>\$ 212,765</u>	<u>\$ (120,139)</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, 2005**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUE			
Property taxes	\$ --	\$ --	\$ --
Interest	--	25	25
Royalties	--	--	--
Charges for Service	--	--	--
Loans	--	200,000	200,000
Grants	--	488,133	488,133
Sale of fixed asset	--	--	--
Other Revenue	--	--	--
Total Revenue	<u>--</u>	<u>688,158</u>	<u>688,158</u>
EXPENDITURES			
General Government	--	--	--
Capital outlay	--	751,324	(751,324)
Public Works	--	--	--
Culture and Leisure	--	--	--
Community Development	--	--	--
Dial-A-Ride	--	--	--
Total General Government	<u>--</u>	<u>751,324</u>	<u>(751,324)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>--</u>	<u>(63,166)</u>	<u>(63,166)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	--	--	--
Operating Transfers Out	--	--	--
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>(63,166)</u>	<u>(63,166)</u>
Fund Balance, July 1	<u>33,356</u>	<u>33,356</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 33,356</u>	<u>\$ (29,811)</u>	<u>\$ (63,166)</u>

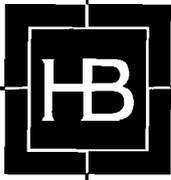
**HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET TO ACTUAL
WASTEWATER CAPITAL PROJECT FUND
Year Ended June 30, 2005**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUE			
Property taxes	\$ --	\$ --	\$ --
Interest	--	--	--
Royalties	--	--	--
Charges for Service	--	--	--
Loans	--	--	--
Grants	--	575,718	575,718
Sale of fixed asset	--	--	--
Other Revenue	--	--	--
Total Revenue	<u>--</u>	<u>575,718</u>	<u>575,718</u>
EXPENDITURES			
General Government	--	--	--
Capital outlay	--	561,053	(561,053)
Public Works	--	--	--
Culture and Leisure	--	--	--
Community Development	--	--	--
Dial-A-Ride	--	--	--
Total General Government	<u>--</u>	<u>561,053</u>	<u>(561,053)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>--</u>	<u>14,665</u>	<u>14,665</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	--	--	--
Operating Transfers Out	--	--	--
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>14,665</u>	<u>14,665</u>
Fund Balance, July 1	<u>--</u>	<u>(14,665)</u>	<u>(14,665)</u>
Fund Balance, June 30	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

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

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUE			
Property taxes	\$ --	\$ --	\$ --
Interest	--	--	--
Royalties	--	--	--
Charges for Service	--	--	--
Loans	--	--	--
Grants	--	--	--
Sale of fixed asset	--	--	--
Other Revenue	46,600	--	(46,600)
Total Revenue	<u>(46,600)</u>	<u>--</u>	<u>(46,600)</u>
EXPENDITURES			
General Government	--	--	--
Capital outlay	--	--	--
Public Works	--	--	--
Culture and Leisure	50,965	62,457	(11,492)
Community Development	--	--	--
Dial-A-Ride	--	--	--
Total General Government	<u>50,965</u>	<u>62,457</u>	<u>(11,492)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(97,565)</u>	<u>(62,457)</u>	<u>(58,092)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	--	222,854	222,854
Operating Transfers Out	--	(228,339)	(228,339)
Total Other Financing Sources (Uses)	<u>--</u>	<u>(5,485)</u>	<u>(5,485)</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>(97,565)</u>	<u>(67,942)</u>	<u>(63,577)</u>
Fund Balance, July 1	<u>68,864</u>	<u>68,864</u>	<u>--</u>
Fund Balance, June 30	<u>\$ (28,701)</u>	<u>\$ 922</u>	<u>\$ (63,577)</u>

SINGLE AUDIT SECTION



HUTCHINSON and

BLOODGOOD LLP

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**INDEPENDENT AUDITORS' 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, 2005, and have issued our report thereon dated March 24, 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 05-1.

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 24, 2006

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 05-1.

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, 2005, and have issued our report thereon dated March 24, 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 24, 2006

**HEBER PUBLIC UTILITY DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2005**

FEDERAL GRANTOR/PASS THROUGH/ GRANTOR PROGRAM TITLE	FEDERAL CFDA <u>NUMBER</u>	PASS THROUGH GRANTOR'S <u>NUMBER</u>	<u>EXPENDITURES</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program			
*Rural Utilities Service Funds	10.760	4, 8, & 9	\$ <u>673,366</u>
Total U.S. Department of Agriculture Rural Utilities Service Funds			\$ <u>673,366</u>
U.S ENVIRONMENT PROTECTION AGENCY			
Pass-through Program			
*North American Bank - Border Environmental Infrastructure Fund	66.418	40-36/03	\$ <u>683,518</u>
Total U.S. Environment Protection Agency			\$ <u>683,518</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass-through Program			
Imperial County – Community Development Block Grants/State's Program	14.228	03-STBG-1860	\$ <u>185,900</u>
Total U.S. Department of Housing and Urban Development			\$ <u>185,900</u>
Total Federal Awards Expenditures			\$ <u>1,542,784</u>

* Major Program

**HEBER PUBLIC UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2005**

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Reportable condition(s) identified not considered to be material weaknesses?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported

Type of auditors’ report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> 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
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Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
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**HEBER PUBLIC UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2005**

<u>PROGRAM</u>	<u>FINDING/NONCOMPLIANCE</u>	<u>QUESTIONED COST</u>
<p>Finding #05-1</p> <p>PASS-THROUGH PROGRAM FROM NORTH AMERICAN BANK – BORDER ENVIRONMENTAL INFRASTRUCTURE FUND (66.418)</p>	<p>Criteria – 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>Condition – 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>Effect - The district is in breach of contract with one key issue established by the North American Development Bank.</p> <p>Cause – Management failed to present a manual of written controls on allocability and allowability of cost accounting records for funds of that program.</p> <p>Recommendation – 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>Management Response: - 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, 2005**

<u>CONDITION</u>	<u>RECOMMENDATION</u>	<u>STATUS</u>
<p>Finding #04-1</p> <p>NON COMPLIANCE WITH GRANT AGREEMENT OF PASS-THROUGH PROGRAM FROM NORTH AMERICAN BANK – BORDER ENVIRONMENTAL INFRASTRUCTURE FUND (66.418)</p>	<p>Criteria – 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>Condition – 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>Effect - The district is in breach of contract with one key issue established by the North American Development Bank.</p> <p>Cause – Management failed to present a manual of written controls on allocability and allowability of cost accounting records for funds of that program.</p> <p>Recommendation – 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>Management Response: - 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>Management is currently preparing a procedures manual. See current year finding #05-1.</p>

HEBER PUBLIC UTILITY DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2005

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.