

**HEBER PUBLIC UTILITY DISTRICT**

**GENERAL PURPOSE  
FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2006**

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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, 2006, 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 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, 2006, 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 9, 2007 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 6 through 12 and budgetary comparison information on pages 40 through 45 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 9, 2007

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006**

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, 2006. 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 2005-2006 fiscal years by \$16,905,927 (*Net Assets*). Of those net assets, \$4,643,343 is unrestricted. The District has no non current liabilities for its governmental activities. Total Restricted Net Assets for the District is \$12,262,584.
- As of June 30, 2006, the District's governmental funds reported total ending fund balances of \$3,961,334 an increase of \$3,600,283 in comparison with the prior year which had a decrease of \$343,390. Fund balance also includes a prior period adjustment for \$53,532.
- At the end of the current fiscal year, unreserved fund deficit for the General Fund is \$89,177 or 64.59% of total General Fund expenditures.
- At the end of the current fiscal year, the Business Type Activities assets exceeded its liabilities by \$11,128,499, an increase of \$4,946,714 from the prior year. Current year increase includes capital contributions for \$5,206,834, a prior period adjustment for \$53,794 and a change in net assets of (\$313,914). The prior year's net asset had an increase of \$1,132,025.
- The District's total long-term debt decreased by the amount of \$51,967 in comparison with the prior year. The decrease is the result of the District's payments to USDA for the Certificates of Participation loans that financed the water plant, water distribution and wastewater collection system 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, 2006**

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 13 and 14 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 three categories: governmental funds, business type funds and agency 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 15 and 17 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 and are considered to be major funds of the District.

The basic proprietary financial statements are presented on pages 19 to 21 of this report.

**Agency Funds** are reported as fiduciary funds and are used to account for assets held on behalf of outside parties. Financial information for the fiduciary funds is not reported in the government-wide financial statements because the resources of these funds are not available to support the District's programs.

The basic agency fund statement of assets and liabilities is presented on page 22.

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006**

**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 23 to 38 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 \$16,905,927 (see Table 1) at the close of the current fiscal year.

The portion of the District's net assets reflects unrestricted net assets of \$4,643,343. Investment in capital assets (e.g., infrastructures, improvements, and construction in progress); less any related outstanding debt used to acquire those assets is \$11,921,801. 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 \$340,783. The portion of the restricted net assets is the aggregate amount for repairs, replacement, maintenance and debt service 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, 2006 and 2005**

	2006	2005
<b>Current Assets:</b>		
Cash and Investments	\$ 5,269,189	\$ 1,163,933
Receivables	904,023	330,129
Notes Receivable	62,500	56,660
Capital Assets	<u>14,803,189</u>	<u>12,334,212</u>
<b>Total Assets</b>	<b><u>\$ 21,038,901</u></b>	<b><u>\$ 13,884,934</u></b>
<b>Current and Other Liabilities:</b>	1,634,485	768,593
Long-Term Liabilities	<u>2,498,489</u>	<u>2,479,746</u>
<b>Total Liabilities</b>	<b><u>4,132,974</u></b>	<b><u>3,248,339</u></b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related debt	11,921,801	9,802,499
Restricted	340,783	362,685
Unrestricted	<u>4,643,343</u>	<u>471,411</u>
<b>Total Net Assets</b>	<b><u>\$ 16,905,927</u></b>	<b><u>\$ 10,636,595</u></b>

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006**

**Table 2 - Heber Public Utility District Changes in Net Assets  
for the Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Program revenues:</b>		
Charge for services	\$ 1,248,696	\$ 1,000,625
Water capacity	2,371,100	3,000
Waste-water capacity	2,371,100	18,500
Royalties and services	219,798	43,494
Grants and contributions	288,264	32,728
Capital grants and contributions	<u>1,176,999</u>	<u>1,063,851</u>
	7,675,957	2,162,198
<b>General revenues:</b>		
Property tax	238,503	177,477
Note receivable	106	62,500
Other revenue	176,562	46,519
Sale of fixed assets	<u>--</u>	<u>--</u>
<b>Total revenues</b>	<u>8,091,128</u>	<u>2,448,694</u>
<b>Program expenses:</b>		
General government	214,319	531,880
Water capital project	69,540	--
Wastewater capital project	17,862	--
Water	871,544	461,556
Wastewater	780,644	585,876
Solid waste	<u>243,653</u>	<u>215,736</u>
<b>Total expenses</b>	<u>2,197,562</u>	<u>1,795,048</u>
Excess ( deficiencies) Before Special Items and Transfers	5,893,566	653,646
Transfers in (out)	<u>--</u>	<u>--</u>
<b>Change in Net Assets:</b>	<u>\$ 5,893,566</u>	<u>\$ 653,646</u>

**Governmental Activities**

Governmental activities increased the District's net assets by \$1,000,986 for the year ended June 30, 2006, thereby accounting for 17% of the total increase in the net assets of the District.

- The District has a series of projects using Grants funds, accounting for an addition of \$1,176,999 in fixed assets.
- Water and wastewater capacity service fees related to new homes being constructed totaled \$4,742,200 representing 58.6% of the District's program revenue for governmental activities.

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006**

**Business-type Activities**

The Business-type activities change in net assets decreased \$(313,914).

- Depreciation expense for business type activities amounted to \$466,632 for the fiscal year.
- Revenues for service charges amounted to \$1,248,696.
- Capital assets were contributed to the water and wastewater fund from the water and wastewater capital projects for a sum of \$5,206,834. The capital assets consisted of the water treatment plant and the sewer collection system.

**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, 2006, The District's governmental funds reported total fund balances of \$3,961,334, a 997% increase 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 \$4,036,635. 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 \$6,532,596 at June 30, 2006. Expenditures for government functions totaled \$3,137,347 at June 30, 2006.

**Proprietary Funds**

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

**Agency Funds**

The agency funds maintain assets held in an agent capacity for other governments, organizations and individuals. The district is acting as an agent for the Heber Heber Public Utility District Community Facilities District No. 2005-1 by making the payments to the bondholders from the property taxes collected by the County of Imperial.

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2006, the District's investment in capital assets for its governmental and business-type activities amounted to \$14,803,189 (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>2006 Total Fixed Assets</b>	<b>2005 Total Fixed Assets</b>
Land	\$ 219,031	\$ 219,031
Infrastructure & Improvements	14,541,998	12,067,124
Furniture and Equipment	<u>42,160</u>	<u>48,057</u>
<b>Total</b>	<b><u>\$ 14,803,189</u></b>	<b><u>\$ 12,334,212</u></b>

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

- Water Treatment Plant Project capital asset contribution to the water fund: \$4,408,857.
- Sewer Collection System capital asset contribution to the wastewater fund: \$797,977.

**Long-Term Debt**

At the end of the current fiscal year, the District had total long-term debt outstanding of \$2,459,745 which is described in the table below.

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

	<b>2006</b>	<b>2005</b>
1968 Sewer Bonds	\$ 18,000	\$ 24,000
1972 Water Bonds	28,000	33,000
Trentham Water Line Note Payable	179,229	188,213
2002 Water enterprise Certificates of Participations	1,113,000	1,133,000
2005 U.S.D.A. Loan	198,016	200,000
2000 Wastewater enterprise Certificates of Participations	<u>943,500</u>	<u>953,500</u>
<b>Total</b>	<b><u>\$ 2,479,745</u></b>	<b><u>\$ 2,531,713</u></b>

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006**

**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, 2006

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 4,526,211	\$ 742,978	\$ 5,269,189
Receivables	6,765	240,258	247,023
Due from other funds	657,000	--	657,000
Noncurrent assets:			
Note receivable	62,500	--	62,500
Capital assets net of accumulated depreciation			
Land	195,031	24,000	219,031
Infrastructure	57,361	--	57,361
Structures and improvements	1,487,617	12,997,020	14,484,637
Equipment	13,585	28,575	42,160
Total assets	7,006,070	14,032,831	21,038,901
<b>LIABILITIES</b>			
Current liabilities:			
Cash overdraft	53,713	22,087	75,800
Accounts payable	462,290	192,957	655,247
Accrued payroll	55,009	191,252	246,261
Accrued expenses	177	--	177
Due to other funds	657,000	--	657,000
Noncurrent liabilities:			
Customer deposits payable	453	18,290	18,743
Due within one year	--	52,992	52,992
Due in more than one year	--	2,426,754	2,426,754
Total liabilities	1,228,642	2,904,332	4,132,974
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,351,952	10,569,849	11,921,801
Restricted for:			
Special revenue	--	340,783	340,783
Unrestricted	4,425,476	217,867	4,643,343
Total net assets	\$ 5,777,428	\$ 11,128,499	\$ 16,905,927

The notes to the financial statements are an integral part of this statement.

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2006**

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Asset		
	Expenses	Royalties & Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<b>Primary Government:</b>							
Governmental activities							
General government	\$ 213,979	\$ 219,798	\$ --	\$ --	\$ 5,819	\$ --	\$ 5,819
Water Capacity	--	2,371,100	--	--	2,371,100	--	2,371,100
Waste Water Capacity	--	2,371,100	--	--	2,371,100	--	2,371,100
Water Capital Projects	69,540	--	--	(3,431,864)	(3,501,404)	--	(3,501,404)
Waste Water Capital Project	<u>17,862</u>	<u>--</u>	<u>--</u>	<u>(597,971)</u>	<u>(615,833)</u>	<u>--</u>	<u>(615,833)</u>
Total Governmental Activities	<u>301,381</u>	<u>4,961,998</u>	<u>--</u>	<u>(4,029,835)</u>	<u>630,782</u>	<u>--</u>	<u>630,782</u>
Business activities							
Water	871,544	560,624	288,264	4,408,857	--	4,386,201	4,386,201
Wastewater	780,644	427,066	--	797,977	--	444,399	444,399
Solid Waste	<u>243,653</u>	<u>261,006</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>17,353</u>	<u>17,353</u>
Total Business Type Activities	<u>1,895,841</u>	<u>1,248,696</u>	<u>288,264</u>	<u>5,206,834</u>	<u>--</u>	<u>4,847,953</u>	<u>4,847,953</u>
<b>General revenues:</b>							
Property tax					238,503	--	238,503
Note revenue					106	--	106
Other revenue					154,990	21,572	176,562
Transfers in (out)					<u>(23,395)</u>	<u>23,395</u>	<u>--</u>
Total general revenues					<u>370,204</u>	<u>44,967</u>	<u>415,171</u>
Change in net assets					1,000,986	4,892,920	5,893,906
<b>Net assets - beginning</b>					4,454,810	6,181,785	10,636,595
Prior period adjustments					<u>321,632</u>	<u>53,794</u>	<u>375,426</u>
Adjusted net assets - beginning					<u>4,776,442</u>	<u>6,235,579</u>	<u>11,012,021</u>
<b>Net assets - ending</b>					<u>\$ 5,777,428</u>	<u>\$ 11,128,499</u>	<u>\$ 16,905,927</u>

The notes to the financial statements are an integral part of this statement.

**HEBER PUBLIC UTILITY DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006**

		Water	Wastewater	Water Capital	Wastewater	Other	Total
	<u>General</u>	<u>Capacity</u>	<u>Capacity</u>	<u>Projects</u>	<u>Capital Projects</u>	<u>Governmental</u>	<u>Governmental</u>
						<u>Funds</u>	<u>Funds</u>
<b>ASSETS</b>							
Cash	\$ --	\$ 2,096,780	\$ 1,928,002	\$ 17,468	\$ 347,439	\$ 136,522	\$ 4,526,211
Accounts receivable	<u>6,765</u>	<u>657,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>663,765</u>
Total Assets	<u>\$ 6,765</u>	<u>\$ 2,753,780</u>	<u>\$ 1,928,002</u>	<u>\$ 17,468</u>	<u>\$ 347,439</u>	<u>\$ 136,522</u>	<u>\$ 5,189,976</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 2,370	\$ --	\$ 657,000	\$ 40,391	\$ 416,358	\$ 935	\$ 1,117,054
Accrued expenses	39,859	--	--	--	--	18,016	57,875
Bank overdraft	<u>53,713</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>53,713</u>
Total Liabilities	<u>95,942</u>	<u>--</u>	<u>657,000</u>	<u>40,391</u>	<u>416,358</u>	<u>18,951</u>	<u>1,228,642</u>
<b>FUND BALANCES</b>							
Reserved for:							
Debt service	--	--	--	--	--	16,541	16,541
Capital outlay	--	--	--	(22,923)	(68,919)	--	(91,842)
Unreserved, reported in							
General fund	(89,177)	--	--	--	--	--	(89,177)
Special revenue funds	<u>--</u>	<u>2,753,780</u>	<u>1,271,002</u>	<u>--</u>	<u>--</u>	<u>101,030</u>	<u>4,125,812</u>
Total Fund Balances	<u>(89,177)</u>	<u>2,753,780</u>	<u>1,271,002</u>	<u>(22,923)</u>	<u>(68,919)</u>	<u>117,571</u>	<u>3,961,334</u>
Total Liabilities & Fund Equity	<u>\$ 6,765</u>	<u>\$ 2,753,780</u>	<u>\$ 1,928,002</u>	<u>\$ 17,468</u>	<u>\$ 347,439</u>	<u>\$ 136,522</u>	<u>\$ 5,189,976</u>

The notes to the financial statements are an integral part of this statement.

**HEBER PUBLIC UTILITY DISTRICT  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2006**

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

Total fund balance - governmental funds	\$ 3,961,334
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 \$1,992,146 and the accumulated depreciation is \$238,552.	<u>1,753,594</u>
Total net assets - governmental activities	<u>\$ 5,777,428</u>

The notes to the financial statements are an integral part of this statement.

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES GOVERNMENTAL FUNDS  
Fiscal Year Ended June 30, 2006**

	<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>
<b>REVENUE</b>							
Property taxes	\$ 224,543	\$ --	\$ --	\$ --	\$ --	\$ 13,960	\$ 238,503
Interest	1,830	16,248	28,750	31	1,437	415	48,711
Royalties	5,792	--	--	--	--	--	5,792
Charges for service	32,006	2,371,100	2,371,100	--	--	182,000	4,956,206
Rent	1,581	--	--	--	--	--	1,581
Loans	--	--	--	--	--	--	--
Grants	--	--	--	976,993	200,006	--	1,176,999
Other revenue	106	--	--	--	104,698	--	104,804
Total Revenue	<u>265,858</u>	<u>2,387,348</u>	<u>2,399,850</u>	<u>977,024</u>	<u>306,141</u>	<u>196,375</u>	<u>6,532,596</u>
<b>EXPENDITURES</b>							
General government	138,064	--	--	--	--	239,979	378,043
Capital outlay	--	--	--	1,053,819	1,705,485	--	2,759,304
Total Expenditures	<u>138,064</u>	<u>--</u>	<u>--</u>	<u>1,053,819</u>	<u>1,705,485</u>	<u>239,979</u>	<u>3,137,347</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>127,794</u>	<u>2,387,348</u>	<u>2,399,850</u>	<u>(76,795)</u>	<u>(1,399,344)</u>	<u>(43,604)</u>	<u>3,395,249</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Operating Transfers in	1,437	--	--	29,150	1,331,862	160,253	1,522,702
Operating Transfers out	--	(29,150)	(1,341,613)	--	(1,437)	--	(1,372,200)
Total Other Financing Sources (Uses)	<u>1,437</u>	<u>(29,150)</u>	<u>(1,341,613)</u>	<u>29,150</u>	<u>1,330,425</u>	<u>160,253</u>	<u>150,502</u>
Net change in fund balances	129,231	2,358,198	1,058,237	(47,645)	(68,919)	116,649	3,545,751
Fund Balance (Deficit), July 1	(218,408)	395,582	212,765	(29,810)	--	922	361,051
Prior Period Adjustments	--	--	--	54,532	--	--	54,532
Adjusted Fund Balance	<u>(218,408)</u>	<u>395,582</u>	<u>212,765</u>	<u>24,722</u>	<u>--</u>	<u>922</u>	<u>415,583</u>
Fund Balance (Deficit), June 30	<u>\$ (89,177)</u>	<u>\$ 753,780</u>	<u>\$ 271,002</u>	<u>\$ (22,923)</u>	<u>\$ (68,919)</u>	<u>\$ 117,571</u>	<u>\$ 3,961,334</u>

The notes to the financial statements are an integral part of this statement.

**HEBER PUBLIC UTILITY DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2006**

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

Net change in fund balances - governmental funds \$ 3,545,751

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.

Finished Capital Project	(5,206,834)		
Depreciation expense	(10,312)		
Capital outlay	<u>2,672,381</u>	<u>(2,544,765)</u>	

Change in net assets - governmental activities \$ 1,000,986

The notes to the financial statements are an integral part of this statement.

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2006**

	<u>Water</u>	<u>Wastewater</u>	<u>Soild Waste</u>	<u>Total</u>
<b>ASSETS</b>				
Current Assets				
Cash and investments	\$ 508,882	\$ 234,096	\$ --	\$ 742,978
Receivables	<u>111,320</u>	<u>99,053</u>	<u>29,885</u>	<u>240,258</u>
Total Current Assets	<u>620,202</u>	<u>333,149</u>	<u>29,885</u>	<u>983,236</u>
Property and equipment, net	<u>8,470,115</u>	<u>4,579,480</u>	<u>--</u>	<u>13,049,595</u>
Total Noncurrent Assets	<u>8,470,115</u>	<u>4,579,480</u>	<u>--</u>	<u>13,049,595</u>
Total Assets	<u>\$ 9,090,317</u>	<u>\$ 4,912,629</u>	<u>\$ 29,885</u>	<u>\$ 14,032,831</u>
<b>LIABILITIES</b>				
Current Liabilities				
Cash overdaft	\$ --	\$ --	\$ 22,087	\$ 22,087
Accounts payable	81,962	64,345	43,916	190,223
Wages and benefits payable	97,773	93,472	7	191,252
Deposits	2,734	16,843	1,447	21,024
Current portion - long term debt	<u>35,464</u>	<u>17,528</u>	<u>--</u>	<u>52,992</u>
Total Current Liabilities	<u>217,933</u>	<u>192,188</u>	<u>67,457</u>	<u>477,578</u>
Certificates of participations	<u>1,336,430</u>	<u>1,090,324</u>	<u>--</u>	<u>2,426,754</u>
Total Noncurrent Liabilities	<u>1,336,430</u>	<u>1,090,324</u>	<u>--</u>	<u>2,426,754</u>
Total Liabilities	<u>1,554,363</u>	<u>1,282,512</u>	<u>67,457</u>	<u>2,904,332</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,098,221	3,471,628	--	10,569,849
Restricted	171,500	169,283	--	340,783
Unrestricted	<u>266,233</u>	<u>(10,794)</u>	<u>(37,572)</u>	<u>217,867</u>
Total Net Assets	<u>7,535,954</u>	<u>3,630,117</u>	<u>(37,572)</u>	<u>11,128,499</u>
Total Liabilities and Fund Equity	<u>\$ 9,090,317</u>	<u>\$ 4,912,629</u>	<u>\$ 29,885</u>	<u>\$ 14,032,831</u>

The notes to the financial statements are an integral part of this statement.

**HEBER PUBLIC UTILITY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**Fiscal Year Ended June 30, 2006**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Charges for service	<u>\$ 560,624</u>	<u>\$ 427,066</u>	<u>\$ 261,006</u>	<u>\$ 1,248,696</u>
Total Operating Revenue	<u>560,624</u>	<u>427,066</u>	<u>261,006</u>	<u>1,248,696</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	319,815	311,628	--	631,443
Materials and supplies	146,147	42,193	683	189,023
Contract and other services	95,833	148,011	242,970	486,814
Depreciation expense	<u>236,927</u>	<u>229,705</u>	<u>--</u>	<u>466,632</u>
Total Operating Expenses	<u>798,722</u>	<u>731,537</u>	<u>243,653</u>	<u>1,773,912</u>
Operating Income (Loss)	<u>(238,098)</u>	<u>(304,471)</u>	<u>17,353</u>	<u>(525,216)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Interest income	801	1,350	4,685	6,836
Grant funds and other revenue	295,379	7,621	--	303,000
Interest expense	<u>(72,822)</u>	<u>(49,107)</u>	<u>--</u>	<u>121,929</u>
Total Non-Operating Revenue (Expense)	<u>223,358</u>	<u>(40,136)</u>	<u>4,685</u>	<u>187,907</u>
Income (Loss) Before Operating Transfers	<u>(14,740)</u>	<u>(344,607)</u>	<u>22,038</u>	<u>(337,309)</u>
Operating Transfers In (Out)	<u>(1,098)</u>	<u>24,493</u>	<u>--</u>	<u>23,395</u>
Change in Net Assets	(15,838)	(320,114)	22,038	(313,914)
Capital Contributions	4,408,857	797,977	--	5,206,834
Net Assets, July 1	3,142,935	3,098,460	(59,610)	6,181,785
Prior period adjustments	<u>--</u>	<u>53,794</u>	<u>--</u>	<u>53,794</u>
Adjusted beginning net assets	<u>3,142,935</u>	<u>3,152,254</u>	<u>(59,610)</u>	<u>6,235,579</u>
Net Assets, June 30	<u>\$ 7,535,954</u>	<u>\$ 3,630,117</u>	<u>\$ (37,572)</u>	<u>\$ 11,128,499</u>

The notes to the financial statements are an integral part of this statement.

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Fiscal Year Ended June 30, 2006**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from users	\$ 484,553	\$ 353,943	\$ 250,912	\$ 1,089,408
Cash paid to suppliers	(182,385)	(138,052)	(216,470)	(536,907)
Cash paid to employees	<u>(268,961)</u>	<u>(262,487)</u>	<u>--</u>	<u>(531,448)</u>
NET CASH PROVIDED (USED) BY OPERATIONS	<u>33,207</u>	<u>(46,596)</u>	<u>34,442</u>	<u>21,053</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers in (out)	<u>(1,098)</u>	<u>24,493</u>	<u>--</u>	<u>23,395</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(1,098)</u>	<u>24,493</u>	<u>--</u>	<u>23,395</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Interest expense	(72,822)	(49,107)	--	(121,929)
Purchase of fixed assets	(4,280)	(2,160)	--	(6,440)
Bond principal payments	<u>(34,501)</u>	<u>(17,466)</u>	<u>--</u>	<u>(51,967)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(111,603)</u>	<u>(68,733)</u>	<u>--</u>	<u>(180,336)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on cash and investments	<u>801</u>	<u>1,350</u>	<u>4,685</u>	<u>6,836</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>801</u>	<u>1,350</u>	<u>4,685</u>	<u>6,836</u>
<b>CASH FLOWS FROM OTHER ACTIVITIES</b>				
Grant and other revenue	<u>295,379</u>	<u>7,621</u>	<u>--</u>	<u>303,000</u>
NET CASH PROVIDED BY OTHER ACTIVITIES	<u>295,379</u>	<u>7,621</u>	<u>--</u>	<u>303,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>216,686</u>	<u>(81,865)</u>	<u>39,127</u>	<u>173,948</u>
CASH AND CASH EQUIVALENTS (OVERDRAFT) - BEGINNING OF YEAR	<u>292,196</u>	<u>315,961</u>	<u>(61,214)</u>	<u>546,943</u>
CASH AND CASH EQUIVALENTS (OVERDRAFT) - END OF YEAR	<u>\$ 508,882</u>	<u>\$ 234,096</u>	<u>\$ (22,087)</u>	<u>\$ 720,891</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (238,098)	\$ (304,471)	\$ 17,353	\$ (525,216)
Adjustments to Reconcile operating Income To Net Cash Provided by Operations				
Depreciation and amortization	236,927	229,705	--	466,632
Increase in receivables	(76,071)	(73,123)	(10,094)	(159,288)
Increase in accounts payable	59,595	52,152	27,183	138,930
Increase in payroll liabilities payable	<u>50,854</u>	<u>49,141</u>	<u>--</u>	<u>99,995</u>
NET CASH PROVIDED (USED) BY OPERATIONS	<u>\$ 33,207</u>	<u>\$ (46,596)</u>	<u>\$ 34,442</u>	<u>\$ 21,053</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>				
Infrastructure acquired with debt	<u>\$ 1,185,182</u>	<u>\$ 147,818</u>	<u>\$ --</u>	<u>\$ 1,333,000</u>

The notes to the financial statements are an integral part of this statement.

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF ASSETS & LIABILITIES  
FIDUCIARY FUND  
At June 30, 2006**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Current Assets	
Cash and investments	\$ 376,546
Deposits with fiscal agent	--
Receivables	<u>401,642</u>
Total Current Assets	<u>778,188</u>
Due from property owners	<u>1,585,968</u>
Total Noncurrent Assets	<u>1,585,968</u>
Total Assets	<u>\$ 2,364,156</u>
 <b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	\$ 9,156
Noncurrent liabilities	
Current portion - long term debt	45,000
Bond obligation	<u>2,310,000</u>
Total Noncurrent Liabilities	<u>2,355,000</u>
Total Liabilities	<u>\$ 2,364,156</u>

The notes to the financial statements are an integral part of this statement.

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2006

**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  
June 30, 2006

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  
June 30, 2006

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.

*Agency Fund*

- Agency funds are custodial in nature and do not involve measurement of results of operations and account for assets held by the District as an agent for Heber Public Utility District Community Facilities District No. 2005-1 by making payments to bondholders from property taxes collected by the County of Imperial.

**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  
June 30, 2006

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.

Fiduciary funds are used to account for assets held in a trustee or agency capacity and cannot be used to support the District's own programs. Agency funds report only assets and liabilities and therefore, do not have a measurement focus; however, agency funds use the accrual basis of accounting to recognize receivables and payables.

***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  
June 30, 2006

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 funds. 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  
June 30, 2006

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  
June 30, 2006

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, 2006 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.

***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  
June 30, 2006

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, 2006 the District did not have investments with LAIF.

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2006**

**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, 2006:

	<u>Category</u>			<u>Bank Balances</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Deposits					
Cash In County Treasury	\$ 16,410	\$ --	\$ --	\$ 16,410	\$ 16,541
Demand deposits	<u>5,449,711</u>	<u>--</u>	<u>--</u>	<u>5,449,711</u>	<u>5,176,848</u>
	<u>\$5,466,122</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,466,122</u>	<u>\$5,193,389</u>

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

Cash and investments	<u>\$5,269,189</u>
Bank Overdrafts (Liability)	<u>\$ 75,800</u>

At June 30, 2006, the carrying amount of the Districts cash deposits in various financial institutions amounted to \$5,449,711. Of the bank balance, \$300,000 was covered by the federal depository insurance.

***Reserve Cash Accounts***

Due to contract conditions from grantors, the district maintains the following reserve bank balances of certain funds received only to be used for certain purposes in the water fund and wastewater fund.

At June 30, 2006, the reserve bank accounts are as follows:

<b>Water Fund:</b>	<b>2006</b>
System repair & replacement	\$ 100,351
System operation & maintenance	56,149
System debt service	<u>15,000</u>
Total water reserve accounts	<u>\$ 171,800</u>
<b>Wastewater Fund:</b>	
System repair & replacement	\$ 102,083
System operations & maintenance	33,141
System capital improvement & debt retirement	<u>34,060</u>
Total wastewater reserve accounts	<u>\$ 169,284</u>

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2006

**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.

**NOTE 5. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
<b>Governmental activities:</b>				
Land	\$ 195,031	\$ --	\$ --	\$ 195,031
Buildings	250,010	--	--	250,010
Machinery and equipment	45,691	340	--	46,031
Furniture and fixtures	13,318	--	--	13,318
Computer equipment	--	140	--	140
Construction in process	<u>5,088,450</u>	<u>2,883,993</u>	<u>6,484,826</u>	<u>1,487,617</u>
Total capital assets	<u>5,592,500</u>	<u>2,884,473</u>	<u>6,484,826</u>	<u>1,992,147</u>
Less accumulated depreciation for:				
Buildings	189,703	2,945	--	192,648
Machinery and equipment	31,007	5,874	--	36,881
Computer equipment	--	46	--	46
Furniture and fixtures	<u>7,530</u>	<u>1,447</u>	--	<u>8,977</u>
Total accumulated depreciation	<u>228,240</u>	<u>10,312</u>	--	<u>238,552</u>
Governmental activities capital assets, net	<u>\$ 5,364,260</u>	<u>\$ 2,873,821</u>	<u>\$ 6,484,826</u>	<u>\$ 1,753,595</u>
<b>Business-type activities:</b>				
Land	\$ 24,000	\$ --	\$ --	\$ 24,000
Structures & Improvements	76,500	--	--	76,500
Machinery and equipment	127,771	5,180	--	132,951
Computer equipment	--	1,260	--	1,260
Infrastructure	<u>9,753,886</u>	<u>6,539,836</u>	--	<u>16,293,722</u>
Total capital assets	<u>9,982,157</u>	<u>6,546,276</u>	--	<u>16,528,433</u>
Less accumulated depreciation for:				
Structures & Improvements	76,500	--	--	76,500
Machinery and Equipment	100,187	5,029	--	105,216
Computer equipment	--	420	--	420
Infrastructure	<u>2,835,519</u>	<u>461,183</u>	--	<u>3,296,702</u>
Total accumulated depreciation	<u>\$ 3,012,206</u>	<u>466,632</u>	--	<u>\$ 3,478,838</u>
Business-type activities capital assets, net	<u>\$ 6,969,951</u>	<u>\$ 6,079,644</u>	<u>\$ --</u>	<u>\$ 13,049,595</u>

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE 5. CAPITAL ASSETS (CONTINUED)**

**Depreciation**

Depreciation expense was charged to functions as follows:

Governmental Activities

General Government	<u>\$ 10,312</u>
--------------------	------------------

Business-type Activities

Water	\$ 236,927
Wastewater	229,705
Solid Waste	<u>          --</u>
	<u>\$ 466,632</u>

**NOTE 6. LEASES**

The district has an operating lease on a copier/scanner/printer rented from Océ Financial Services, Inc. The terms of the contract are 60 monthly payments of \$239 beginning January 2006. The following are the future payments the District will make.

Year:	Payments:
2006/2007	\$ 2,868
2007/2008	2,868
2008/2009	2,868
2009/2010	2,868
2011	<u>1,434</u>
Total:	<u>\$ 12,906</u>

**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 Certificate of Participation loans, 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, 2006:

General Obligation Bonds	\$ 46,000
Note Payable – Fonzie Trentham	179,229
Wastewater Enterprise Certificated of Participation	
Loan 2000	943,500
2005 U.S.D.A. Loan	198,016
Water Enterprise Certificates of Participation Loan 2002	1,093,000

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2006**

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

General Obligation Bonds

The following is a summary of bond transactions of the Heber Public Utility District for the year ended June 30, 2006:

	1968 Sewer Bonds	1972 Water Bonds	Total
Bonds Payable – July 1, 2005	\$ 24,000	\$ 33,000	\$57,000
Bonds currently retired	<u>( 6,000)</u>	<u>( 5,000)</u>	<u>(11,000)</u>
Bonds Payable – June 30, 2006	<u>\$ 18,000</u>	<u>\$ 28,000</u>	<u>\$46,000</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, 2006 was \$18,000.
- 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, 2006 was \$28,000.
- Note Payable Fronzie Trentham – The District issued a note as part of a settlement of a lawsuit brought by Fonzie 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 2006 was \$179,229. The current portion of the long-term debt is \$9,924.

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2006**

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

**Business-Type Activities (Continued)**

- 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 principal amount outstanding at June 30, 2006 was \$943,500.
- 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 Water Fund. Principal payments are due on December 1 of each year. The principal amount outstanding at June 30, 2006 was \$1,113,000.
- 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, 2006 is \$198,016.

**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
2007	\$ 11,000	\$ 1,988	\$ 9,924	\$ 17,478	\$ 32,068	\$ 100,508
2008	11,000	1,453	10,918	16,485	37,156	99,070
2009	12,000	893	12,107	15,296	37,248	97,404
2010	6,000	450	13,374	14,028	37,343	96,633
2011	6,000	150	14,775	11,111	37,443	93,384
2012 - 2016	--	--	100,533	36,479	223,863	406,387
2017 - 2021	--	--	17,598	669	272,071	386,687
2022 - 2026	--	--	--	--	310,020	291,522
2027 - 2031	--	--	--	--	350,883	249,062
2032 - 2036	--	--	--	--	400,771	137,421
2037 - 2041	--	--	--	--	355,744	57,501
2041 - 2046	--	--	--	--	159,906	7,185
	<u>\$ 46,000</u>	<u>\$ 4,934</u>	<u>\$ 179,229</u>	<u>\$ 111,555</u>	<u>\$ 2,254,516</u>	<u>\$ 2,233,067</u>

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2006**

**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, 2006 consisted of the following:

	Transfers Out					Total
	General & Park Fund	Water Wastewater Capacity	Capital Projects Funds	Debt Services	Water, Wastewater And Solid Waste	
Transfers in						
General & Park Fund	\$ --	\$ --	\$ 1,437	\$ --	\$ 4	\$ 1,441
Water, Wastewater Capacity	--	--	--	--	--	--
Capital Project Funds	--	1,361,012	--	--	--	1,361,012
Debt Service	--	--	--	--	--	--
Water, Wastewater, and Solid Waste	--	9,751	--	13,648	--	23,399
Total	<u>\$ --</u>	<u>\$ 1,370,763</u>	<u>\$ 1,437</u>	<u>\$ 13,648</u>	<u>\$ 4</u>	<u>\$ 1,385,852</u>

**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.

**HEBER PUBLIC UTILITY DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2006**

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

***Annual Pension Cost***

For the fiscal year ended June 30, 2006, the District's annual pension cost including employees' contribution was \$32,380 for the Miscellaneous Plan. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members, and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3%. 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, 2006.

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

Fiscal Year June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	21,872	100%	--
2005	34,181	100%	--
2006	32,380	100%	--

Required Supplementary Information

***Risk Pool Valuation***

Effective with the 6/30/2003 valuation, the District's plan was placed in risk pools that were established for plans containing less than 100 active members as of the valuation date. In general, plans satisfying this criterion were lumped into pools based on their benefit formula and membership category.

**Funded Status of Miscellaneous Plan**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
2003	\$317,520,943	\$289,439,549	\$28,081,394	91.2%	\$74,981,463	37.5%
2004	434,267,445	379,807,592	54,459,853	87.5%	97,227,479	56.0%
2005	579,276,103	500,388,523	78,887,580	86.4%	129,379,492	61.0%

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2006

**NOTE 13. DEFICIT NET ASSETS AND FUND BALANCES**

As of June 30, 2006, the following funds have a deficit:

- The General Fund has a fund deficit of \$89,177.
- The Water Capital Project has a fund deficit of \$22,923
- The Wastewater Capital Project Fund has a fund deficit of \$68,919.
- The Solid Waste Fund has an unrestricted net asset deficit of \$37,572.

**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**

***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 ADJUSTMENTS**

In the prior fiscal year, the District incurred expenses in the Wastewater Fund that were not part of their operations. These expenses are incurred by the housing developers that pay a fee to The Holt Group engineers, through the District, to inspect their constructions and water connections for the new houses. These expenses totaled \$53,794.

In the previous three years, the District had incurred construction expenses for the Water Distribution System, Water Treatment Plant and the Sewer Collection System projects in their corresponding funds. However, some of these expenses were never reclassified to construction in progress. These expenses totaled \$267,100.

In the prior year, the Water Capital Project Fund accrued an accounts payable that was already recorded in expenses. The amount totaled to \$54,532.

These adjustments had a net effect of \$321,632 on the government funds and \$53,794 for the proprietary funds, increasing both of their fund balances and net assets.

**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, 2006**

	<u>Original &amp; Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ 136,650	\$ 224,543	\$ 87,893
Interest	3,500	1,830	(1,670)
Royalties	7,000	5,792	(1,208)
Charges for service	24,800	32,006	7,206
Other revenue	<u>1,398</u>	<u>1,687</u>	<u>289</u>
Total Revenue	<u>173,348</u>	<u>265,858</u>	<u>92,510</u>
<b>EXPENDITURES</b>			
General government	<u>114,483</u>	<u>138,064</u>	<u>(23,581)</u>
Total General Government	<u>114,483</u>	<u>138,064</u>	<u>(23,581)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>58,865</u>	<u>127,794</u>	<u>68,929</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	<u>--</u>	<u>1,437</u>	<u>1,437</u>
Total Other Financing Sources (Uses)	<u>--</u>	<u>1,437</u>	<u>1,437</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>58,865</u>	<u>129,231</u>	<u>70,366</u>
Fund Balance, July 1	<u>(218,408)</u>	<u>(218,408)</u>	<u>--</u>
Fund Balance, June 30	<u>\$ (159,543)</u>	<u>\$ (89,177)</u>	<u>\$ 70,366</u>

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – BUDGET TO ACTUAL  
WATER CAPACITY FUND  
Year Ended June 30, 2006**

	<u>Original &amp; Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ --	\$ --	\$ --
Interest	--	16,248	16,248
Royalties	--	--	--
Charges for service	1,296,000	2,371,100	1,075,100
Loans	--	--	--
Grants	--	--	--
Sale of fixed asset	--	--	--
Other revenue	--	--	--
Total Revenue	<u>1,296,000</u>	<u>2,387,348</u>	<u>1,091,348</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>1,296,000</u>	<u>2,387,348</u>	<u>1,091,348</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	--	--	--
Operating Transfers Out	--	(29,150)	(29,150)
Total Other Financing Sources (Uses)	<u>--</u>	<u>(29,150)</u>	<u>(29,150)</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>1,296,000</u>	<u>2,358,198</u>	<u>1,062,198</u>
Fund Balance, July 1	<u>395,582</u>	<u>395,582</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 1,691,582</u>	<u>\$ 2,753,780</u>	<u>\$ 1,062,198</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>Original &amp; Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ --	\$ --	\$ --
Interest	--	28,750	28,750
Royalties	--	--	--
Charges for service	1,296,000	2,371,100	1,075,100
Loans	--	--	--
Grants	--	--	--
Sale of fixed asset	--	--	--
Other revenue	--	--	--
Total Revenue	<u>1,296,000</u>	<u>2,399,850</u>	<u>1,103,850</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>1,296,000</u>	<u>2,399,850</u>	<u>1,103,850</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	--	--	--
Operating Transfers Out	--	(1,341,613)	1,341,613
Total Other Financing Sources (Uses)	<u>--</u>	<u>(1,341,613)</u>	<u>(1,341,613)</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>1,296,000</u>	<u>1,058,237</u>	<u>(237,763)</u>
Fund Balance, July 1	<u>212,765</u>	<u>212,765</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 1,508,765</u>	<u>\$ 1,271,002</u>	<u>\$ (237,763)</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, 2006**

	<u>Original &amp; Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ --	\$ --	\$ --
Interest	--	31	31
Royalties	--	--	--
Charges for service	--	--	--
Loans	--	--	--
Grants	--	976,993	976,993
Sale of fixed asset	--	--	--
Other revenue	--	--	--
Total Revenue	<u>--</u>	<u>977,024</u>	<u>977,024</u>
<b>EXPENDITURES</b>			
General government	--	--	--
Capital outlay	--	1,053,819	(1,053,819)
Public works	--	--	--
Culture and leisure	--	--	--
Community development	--	--	--
Dial-a-ride	--	--	--
Total General Government	<u>--</u>	<u>1,053,819</u>	<u>(1,053,819)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>--</u>	<u>(76,795)</u>	<u>(76,795)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	<u>--</u>	<u>29,150</u>	<u>29,150</u>
Operating Transfers Out	<u>--</u>	<u>--</u>	<u>--</u>
Total Other Financing Sources (Uses)	<u>--</u>	<u>29,150</u>	<u>29,150</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>--</u>	<u>(47,645)</u>	<u>(47,645)</u>
Fund Balance, July 1	(29,810)	(29,810)	--
Prior Period Adjustments	<u>54,532</u>	<u>54,532</u>	<u>--</u>
Adjusted Fund Balance	<u>24,722</u>	<u>24,722</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 24,722</u>	<u>\$ (22,923)</u>	<u>\$ (47,645)</u>

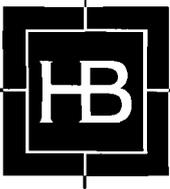
**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – BUDGET TO ACTUAL  
WASTEWATER CAPITAL PROJECT FUND  
Year Ended June 30, 2006**

	<u>Original &amp; Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ --	\$ --	\$ --
Interest	--	1,437	1,437
Royalties	--	--	--
Charges for service	--	--	--
Loans	--	--	--
Grants	--	200,006	200,006
Sale of fixed asset	--	--	--
Other revenue	--	104,698	104,698
Total Revenue	<u>--</u>	<u>306,141</u>	<u>306,141</u>
<b>EXPENDITURES</b>			
General government	--	--	--
Capital outlay	--	1,705,485	(1,705,485)
Public works	--	--	--
Culture and leisure	--	--	--
Community development	--	--	--
Dial-a-ride	--	--	--
Total General Government	<u>--</u>	<u>1,705,485</u>	<u>(1,705,485)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>--</u>	<u>(1,399,344)</u>	<u>(1,399,344)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	--	1,331,862	1,331,862
Operating Transfers Out	--	(1,437)	(1,437)
Total Other Financing Sources (Uses)	<u>--</u>	<u>1,330,425</u>	<u>1,330,425</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>--</u>	<u>(68,919)</u>	<u>(68,919)</u>
Fund Balance, July 1	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balance, June 30	<u>\$ --</u>	<u>\$ (68,919)</u>	<u>\$ (68,919)</u>

**HEBER PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – BUDGET TO ACTUAL  
OTHER GOVERNMENTAL FUNDS  
Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Property taxes	\$ --	\$ 13,960	\$ 13,960
Interest	--	415	(415)
Royalties	--	--	--
Charges for service	467,000	182,000	(285,000)
Loans	--	--	--
Grants	--	--	--
Sale of fixed asset	--	--	--
Other revenue	--	--	--
Total Revenue	<u>467,000</u>	<u>196,375</u>	<u>(270,625)</u>
<b>EXPENDITURES</b>			
General government	--	173,896	(173,896)
Capital outlay	--	--	--
Public works	--	--	--
Culture and leisure	100,278	66,083	34,195
Community development	--	--	--
Dial-a-ride	--	--	--
Total General Government	<u>100,278</u>	<u>239,979</u>	<u>(139,701)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>366,722</u>	<u>(43,604)</u>	<u>(410,326)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	--	160,253	160,253
Operating Transfers Out	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>160,253</u>	<u>160,253</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses	<u>366,722</u>	<u>116,649</u>	<u>(250,073)</u>
Fund Balance, July 1	<u>922</u>	<u>922</u>	<u>--</u>
Fund Balance, June 30	<u>\$ 367,644</u>	<u>\$ 117,571</u>	<u>\$ (250,073)</u>

**SINGLE AUDIT SECTION**



HUTCHINSON and

BLOODGOOD LLP

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND OTHER MATTERS 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, 2006, and have issued our report thereon dated March 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

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 no instances of noncompliance that is required to be reported under *Government Auditing Standard*.

We noted certain other matters that we reported to the District's management in a separate letter dated March 8, 2007

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 opinion 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 9, 2007



**HUTCHINSON and**

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**INDEPENDENT AUDITORS' 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, 2006. 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 06-1 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 and consistently implementing them. 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, 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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. We noted no matters involving the internal control over compliance and its operation that we consider to 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 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, 2006, and have issued our report thereon dated March 9, 2007. 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 9, 2007

**HEBER PUBLIC UTILITY DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2006**

<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>508,204</u>
Total U.S. Department of Agriculture Rural Utilities Service Funds			\$ <u>508,204</u>
<b>U.S ENVIRONMENT PROTECTION AGENCY</b>			
Pass-through Program			
*North American Bank - Border Environmental Infrastructure Fund	66.418	40-36/03	\$ <u>747,553</u>
Total U.S. Environment Protection Agency			\$ <u>747,553</u>
* Major Program			

**HEBER PUBLIC UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2006**

**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?	<u>X</u> yes    ___ 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
---	------------------------

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, 2006**

<u>PROGRAM</u>	<u>FINDING/NONCOMPLIANCE</u>	<u>QUESTIONED COST</u>
<p><b>Finding #06-1</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 tests on the District’s compliance with key issues agreed in the grant contracts, it came to our attention they have not implemented 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 not in compliance 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 approve and implement 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 has a written manual of procedures for allocability and allowability of cost accounting records, however, the manual was approved by the Board at the end of the fiscal year that the implementation of these procedures did not begin until the subsequent fiscal year.</p>	<p>--</p>

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2006**

<u>PROGRAM</u>	<u>FINDING/NONCOMPLIANCE</u>	<u>STATUS</u>
<p><b>Finding #05-1</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>Management is currently preparing a procedures manual. See current year finding #06-1.</p>

--

**HEBER PUBLIC UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2006**

<u>CONDITION</u>	<u>RECOMMENDATION</u>	<u>STATUS</u>
<p><b>Finding #04-1</b></p> <p><b>NON COMPLIANCE WITH GRANT AGREEMENT OF 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>Management is currently preparing a procedures manual. See current year finding #06-1.</p>

**HEBER PUBLIC UTILITY DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2006**

**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.