

HEBER PUBLIC UTILITY DISTRICT

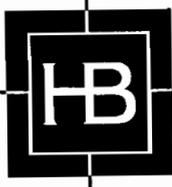
**GENERAL PURPOSE
FINANCIAL STATEMENTS**

**For the Year Ended
June 30, 2011**

TABLE OF CONTENTS

	Page
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 – 9
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
FUND FINANCIAL STATEMENTS	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Assets – Proprietary Funds	16
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds	18
Statement of Assets & Liabilities – Fiduciary Fund	19
NOTES TO BASIC FINANCIAL STATEMENTS	20 – 35
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	36 – 37

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Heber Public Utility District
Heber, California 92249

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These 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. 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 respective 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, 2011, 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 2, 2012 on our consideration of Heber Public Utility District's 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 audit.

The Management's Discussion and Analysis on pages 4 through 9, respectively, are not 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.

Hutchinson and Bloodgood LLP

March 2, 2012

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

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, 2011. 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 2010-2011 fiscal year by \$19,890,941 (*Net Assets*). Of those net assets, \$1,299,537 are unrestricted. Total Restricted Net Assets for the District is \$18,591,404.
- As of June 30, 2011, the District's governmental funds reported total ending fund balances of \$226,739, a decrease of \$39,021 in comparison with the prior year.
- At the end of the current fiscal year, the Business Type Activities assets exceeded its liabilities by \$18,811,677, an increase of \$239,310 from the prior year.

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.

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.

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 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 10 and 11 of this report.

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

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 resources 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 12 and 14 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 16 to 18 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 19.

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

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 20 to 35 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 \$19,890,941 (see Table 1) at the close of the current fiscal year.

The portion of the District's net assets reflects unrestricted net assets of \$1,299,537. Investment in capital assets (e.g., infrastructures, improvements, and construction in progress); less any related outstanding debt used to acquire those assets is \$17,831,851. 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 \$759,553. 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.

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

**Table 1 – Heber Public Utility District Net Assets
June 30, 2011 and 2010**

	2011	2010
Current Assets:		
Cash and Investments	\$ 2,645,607	\$ 1,844,380
Receivables	327,707	1,002,521
Due From Other Funds	254,346	254,326
Notes Receivable	32,413	38,611
Capital Assets	<u>22,631,070</u>	<u>23,013,761</u>
Total Assets	<u>25,891,143</u>	<u>26,153,599</u>
Current and Other Liabilities	671,633	929,138
Customer Deposit Payable	53,216	50,306
Long-Term Liabilities	<u>5,275,353</u>	<u>5,537,326</u>
Total Liabilities	<u>6,000,202</u>	<u>6,516,770</u>
Net Assets:		
Restricted	18,591,404	18,526,262
Unrestricted	<u>1,299,537</u>	<u>1,110,567</u>
Total Net Assets	<u>\$ 19,890,941</u>	<u>\$ 19,636,829</u>

**Table 2 - Heber Public Utility District Changes in Net Assets
for the Years Ended June 30, 2011 and 2010**

	2011	2010
Program revenues:		
Charge for services	\$ 2,839,938	\$ 2,989,182
Federal Grants	325,574	--
Royalties and services	<u>87,106</u>	<u>137,578</u>
	3,252,618	3,126,760
General revenues:		
Property tax	422,251	419,789
Other revenue	<u>68,460</u>	<u>68,952</u>
Total revenues	<u>3,743,329</u>	<u>3,615,501</u>
Program expenses:		
General government	209,848	175,707
Water	1,581,249	1,302,538
Wastewater	1,271,596	1,189,173
Solid waste	<u>426,523</u>	<u>392,609</u>
Total expenses	<u>3,489,216</u>	<u>3,060,027</u>
Excess (deficiencies) Before Special Items and Transfers	<u>--</u>	<u>--</u>
Change in Net Assets:	<u>\$ 254,113</u>	<u>\$ 555,474</u>

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Governmental Activities

Governmental activities increased the District's net assets by \$14,802 for the year ended June 30, 2011.

Business-type Activities

The Business-type activities change in net assets increased by \$239,311.

- Depreciation expense for business type activities amounted to \$710,083 for the fiscal year.
- Revenues for service charges amounted to \$2,839,938.

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, 2011, The District's governmental funds reported total net assets of \$1,079,264. The unrestricted net assets, which are available to meet the District's future capital projects and future obligations, is \$226,739. The remaining portion of the net assets 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 \$224,650 at June 30, 2011. Expenditures for government functions totaled \$209,848 at June 30, 2011.

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 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, 2011**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the District's investment in capital assets for its governmental and business-type activities amounted to \$22,631,070 (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)

	2011 Total Fixed Assets	2010 Total Fixed Assets
Land	\$ 1,021,143	\$ 1,021,143
Infrastructure & Improvements	19,500,891	16,270,293
Furniture and Equipment	230,205	195,565
Construction In Process	<u>1,878,831</u>	<u>5,526,760</u>
Total	<u>\$ 22,631,070</u>	<u>\$ 23,013,761</u>

Long-Term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$5,419,145 which is described in the table below.

Table 4 - The District's Outstanding Debt

	2011	2010
1972 Water Bonds	\$ --	\$ 6,000
Trentham Water Line Note Payable	--	132,956
2002 Water enterprise Certificates of Participations	1,013,000	1,033,000
2000 Wastewater enterprise Certificates of Participations	873,500	888,500
Governmental Capital Corporation	125,645	163,484
2009 U.S.D.A Loan	<u>3,407,000</u>	<u>3,470,000</u>
Total	<u>\$ 5,419,145</u>	<u>\$ 5,857,424</u>

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Graciela Lopez, HPUD Finance Officer at (760) 482-2445.

HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF NET ASSETS
June 30, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 216,783	\$ 2,428,824	\$ 2,645,607
Receivables	26,144	301,563	327,707
Due from other funds	--	254,346	254,346
Noncurrent assets:			
Note receivable	--	32,413	32,413
Capital assets net of accumulated depreciation			
Land	508,867	512,276	1,021,143
Infrastructure	--	19,010,606	19,010,606
Structures and improvements	285,267	205,018	490,285
Equipment	58,391	171,814	230,205
Construction in process	<u>--</u>	<u>1,878,831</u>	<u>1,878,831</u>
Total assets	<u>1,095,452</u>	<u>24,795,691</u>	<u>25,891,143</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,527	142,789	144,316
Accrued payroll	14,661	111,678	126,339
Due to other funds	--	257,186	257,186
Noncurrent liabilities:			
Customer deposits payable	--	53,216	53,216
Due within one year	--	143,792	143,792
Due in more than one year	<u>--</u>	<u>5,275,353</u>	<u>5,275,353</u>
Total liabilities	<u>16,188</u>	<u>5,984,014</u>	<u>6,000,202</u>
NET ASSETS			
Restricted	852,525	17,738,879	18,591,404
Unrestricted	<u>226,739</u>	<u>1,072,798</u>	<u>1,299,537</u>
Total net assets	<u>\$ 1,079,264</u>	<u>\$ 18,811,677</u>	<u>\$ 19,890,941</u>

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, 2011**

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Asset		
	Expenses	Royalties & Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business Type Activities	Total
Primary Government:							
Governmental activities							
Special Revenue	\$ 209,848	\$ 87,108	\$ --	\$ --	\$ (122,742)	\$ --	\$ (122,742)
Other governmental activities	--	--	--	--	--	--	--
Total Governmental Activities	<u>209,848</u>	<u>87,108</u>	<u>--</u>	<u>--</u>	<u>(122,742)</u>	<u>--</u>	<u>(122,742)</u>
Business activities							
Water	1,581,249	1,381,490	325,574	--	--	105,815	105,815
Wastewater	1,271,598	1,039,832	--	--	--	(231,984)	(231,984)
Solid Waste	<u>426,523</u>	<u>438,818</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>12,293</u>	<u>12,293</u>
Total Business Type Activities	<u>3,279,388</u>	<u>2,839,938</u>	<u>325,574</u>	<u>--</u>	<u>--</u>	<u>(113,856)</u>	<u>(113,856)</u>
General revenues:							
Property tax					131,338	290,915	422,251
Other revenue					8,208	82,252	88,460
Transfers in (out)					--	--	--
Total general revenues					<u>137,544</u>	<u>353,167</u>	<u>490,711</u>
Change in net assets					14,802	239,311	254,113
Net assets - beginning					<u>1,084,462</u>	<u>18,572,368</u>	<u>19,636,828</u>
Net assets - ending					<u>\$ 1,079,264</u>	<u>\$ 18,811,677</u>	<u>\$ 19,890,941</u>

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

**HEBER PUBLIC UTILITY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	Special Revenue	Debt Service	Total Governmental Funds
ASSETS			
Cash	\$ 211,978	\$ 4,805	\$ 216,783
Accounts receivable	<u>23,252</u>	<u>2,892</u>	<u>26,144</u>
Total Assets	<u>\$ 235,230</u>	<u>\$ 7,697</u>	<u>\$ 242,927</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,527	\$ --	\$ 1,527
Accrued expenses	<u>14,661</u>	<u>--</u>	<u>14,661</u>
Total Liabilities	<u>16,188</u>	<u>--</u>	<u>16,188</u>
 FUND BALANCES			
Restricted funds	--	7,697	7,697
Unassigned funds	<u>219,042</u>	<u>--</u>	<u>219,042</u>
Total Fund Balances	<u>219,042</u>	<u>7,697</u>	<u>226,739</u>
 Total Liabilities & Fund Balance	 <u>\$ 235,230</u>	 <u>\$ 7,697</u>	 <u>\$ 242,927</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, 2011**

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

Total fund balance - governmental funds	\$ 226,739
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. The cost of the assets is \$1,184,605 and the accumulated depreciation is \$332,080.	<u>852,525</u>
Total net assets - governmental activities	<u>\$ 1,079,264</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, 2011**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Governmental Funds</u>
REVENUE			
Property taxes	\$ 131,336	\$ --	\$ 131,336
Interest	1,008	--	1,008
Charges for service	87,106	--	87,106
Other revenue	<u>5,200</u>	<u>--</u>	<u>5,200</u>
Total Revenue	<u>224,650</u>	<u>--</u>	<u>224,650</u>
EXPENDITURES			
General government	263,671	--	263,671
Capital outlay	<u>--</u>	<u>--</u>	<u>--</u>
Total Expenditures	<u>263,671</u>	<u>--</u>	<u>263,671</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(39,021)</u>	<u>--</u>	<u>(39,021)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers in	--	--	--
Operating Transfers out	<u>--</u>	<u>--</u>	<u>--</u>
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balances	(39,021)	--	(39,021)
Fund Balance, July 1	<u>258,063</u>	<u>7,697</u>	<u>265,760</u>
Fund Balance, June 30	<u>\$ 219,042</u>	<u>\$ 7,697</u>	<u>\$ 226,739</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, 2011**

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

Net change in fund balances - governmental funds \$ (39,021)

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.

Depreciation Expense	(19,535)
Capital Outlay	<u>73,358</u>

Change in net assets - governmental activities \$ 14,802

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, 2011

	<u>Water</u>	<u>Wastewater</u>	<u>Soild Waste</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and investments	\$ 1,528,711	\$ 882,175	\$ 17,938	\$ 2,428,824
Receivables	155,031	107,408	39,124	301,563
Note receivable	--	32,413	--	32,413
Due from other funds	<u>20</u>	<u>254,326</u>	<u>--</u>	<u>254,346</u>
Total Current Assets	<u>1,683,762</u>	<u>1,276,322</u>	<u>57,062</u>	<u>3,017,146</u>
Property and equipment, net	<u>14,888,787</u>	<u>6,889,758</u>	<u>--</u>	<u>21,778,545</u>
Total Noncurrent Assets	<u>14,888,787</u>	<u>6,889,758</u>	<u>--</u>	<u>21,778,545</u>
Total Assets	<u>\$ 16,572,549</u>	<u>\$ 8,166,080</u>	<u>\$ 57,062</u>	<u>\$ 24,795,691</u>
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 50,584	\$ 91,952	\$ 253	\$ 142,789
Wages and benefits payable	12,281	12,420	--	24,701
Compensated absences payable	40,739	46,238	--	86,977
Deposits	41,710	5,532	5,974	53,216
Due to other funds	257,186	--	--	257,186
Current portion - long term debt	<u>141,614</u>	<u>15,000</u>	<u>--</u>	<u>156,614</u>
Total Current Liabilities	<u>544,114</u>	<u>171,142</u>	<u>6,227</u>	<u>721,483</u>
Long term debt	<u>4,404,031</u>	<u>858,500</u>	<u>--</u>	<u>5,262,531</u>
Total Noncurrent Liabilities	<u>4,404,031</u>	<u>858,500</u>	<u>--</u>	<u>5,262,531</u>
Total Liabilities	<u>4,948,145</u>	<u>1,029,642</u>	<u>6,227</u>	<u>5,984,014</u>
NET ASSETS				
Invested in capital assets, net of related debt	10,805,629	6,173,697	--	16,979,326
Restricted	440,930	318,623	--	759,553
Unrestricted	<u>377,845</u>	<u>644,118</u>	<u>50,835</u>	<u>1,072,798</u>
Total Net Assets	<u>11,624,404</u>	<u>7,136,438</u>	<u>50,835</u>	<u>18,811,677</u>
Total Liabilities and Net Assets	<u>\$ 16,572,549</u>	<u>\$ 8,166,080</u>	<u>\$ 57,062</u>	<u>\$ 24,795,691</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, 2011

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
OPERATING REVENUE				
Charges for service	\$ 1,511,778	\$ 1,180,259	\$ 438,816	\$ 3,130,853
Total Operating Revenue	<u>1,511,778</u>	<u>1,180,259</u>	<u>438,816</u>	<u>3,130,853</u>
OPERATING EXPENSES				
Salaries and benefits	553,982	520,797	--	1,074,779
Materials and supplies	237,387	85,035	733	323,155
Contract and other services	207,229	337,116	425,790	970,135
Depreciation expense	421,418	288,665	--	710,083
Total Operating Expenses	<u>1,420,016</u>	<u>1,231,613</u>	<u>426,523</u>	<u>3,078,152</u>
Operating Income (Loss)	91,762	(51,354)	12,293	52,701
NONOPERATING REVENUE (EXPENSE)				
Interest income	7,695	8,713	--	16,408
Grant funds and other revenue	349,063	20,620	1,735	371,418
Interest expense	(161,233)	(39,983)	--	(201,216)
Total Non-Operating Revenue (Expense)	<u>195,525</u>	<u>(10,650)</u>	<u>1,735</u>	<u>186,610</u>
Income (Loss) Before Operating Transfers	287,287	(62,004)	14,028	239,311
Operating Transfers In (Out)	--	--	--	--
Change in Net Assets	287,287	(62,004)	14,028	239,311
Net Assets, July 1	<u>11,337,117</u>	<u>7,198,442</u>	<u>36,807</u>	<u>18,572,366</u>
Net Assets, June 30	<u>\$ 11,624,404</u>	<u>\$ 7,136,438</u>	<u>\$ 50,835</u>	<u>\$ 18,811,677</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, 2011**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from users	\$ 1,870,345	\$ 1,271,714	\$ 439,293	\$ 3,381,352
Cash received from operating activities	214,433	189,672	--	404,105
Cash paid to suppliers	(704,966)	(398,219)	(426,086)	(1,529,271)
Cash paid to employees	(546,337)	(536,011)	--	(1,082,348)
NET CASH PROVIDED BY OPERATIONS	<u>633,475</u>	<u>527,156</u>	<u>13,207</u>	<u>1,173,838</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	--	--	--	--
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest expense	(161,233)	(39,983)	--	(201,216)
Purchase of fixed assets	(151,570)	(121,998)	--	(273,568)
Bond principal payments	(259,797)	(14,999)	--	(274,796)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(572,600)</u>	<u>(176,980)</u>	<u>--</u>	<u>(749,580)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on cash and investments	7,695	8,713	--	16,408
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>7,695</u>	<u>8,713</u>	<u>--</u>	<u>16,408</u>
CASH FLOWS FROM OTHER ACTIVITIES				
Grant and other revenue	349,063	20,620	1,735	371,418
NET CASH PROVIDED BY OTHER ACTIVITIES	<u>349,063</u>	<u>20,620</u>	<u>1,735</u>	<u>371,418</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>417,633</u>	<u>379,509</u>	<u>14,942</u>	<u>812,084</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,111,078</u>	<u>502,666</u>	<u>2,996</u>	<u>1,616,740</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,528,711</u>	<u>\$ 882,175</u>	<u>\$ 17,938</u>	<u>\$ 2,428,824</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income	\$ 91,762	\$ (51,354)	\$ 12,293	\$ 52,701
Adjustments to Reconcile operating Income				
To Net Cash Provided by Operations				
Depreciation and amortization	421,418	288,665	--	710,083
Changes in Assets and Liabilities				
Decrease in receivables	373,000	281,126	477	654,603
Increase (decrease) in accounts payable	(260,350)	23,932	437	(235,981)
Increase (decrease) in payroll liabilities payable	7,645	(15,213)	--	(7,568)
NET CASH PROVIDED BY OPERATIONS	<u>\$ 633,475</u>	<u>\$ 527,156</u>	<u>\$ 13,207</u>	<u>\$ 1,173,838</u>

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

**HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF ASSETS & LIABILITIES
FIDUCIARY FUND
June 30, 2011**

	<u>Agency Fund</u>
ASSETS	
Current Assets	
Cash and investments	\$ 360,558
Total Current Assets	<u>360,558</u>
Due from property owners	<u>1,883,829</u>
Total Noncurrent Assets	<u>1,883,829</u>
Total Assets	<u>\$ 2,244,386</u>
LIABILITIES	
Current Liabilities	<u>\$ 79,686</u>
Noncurrent liabilities	
Current portion - long term debt	45,000
Bond obligation	<u>2,119,700</u>
Total Noncurrent Liabilities	<u>2,164,700</u>
Total Liabilities	<u>2,244,386</u>
FUND BALANCE	
Fund Balance	<u>--</u>
Total Fund Balance	<u>--</u>
Total Liabilities & Fund Balance	<u>\$ 2,244,386</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, 2011

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, 2011

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 *Special Revenue Fund* is used to account for the proceeds of a specific revenue source that is legally restricted to expenditures for specified purposes. The District's Special Revenue Fund consists of the Parks and Recreation Fund.
- The *Debt Service Fund* is used for the purpose of accumulating resources for the payment of interest and current principal on long-term general obligation debt of the governmental funds.

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

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, 2011

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 spend able 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. Non-exchange 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, 2011

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 governmental 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 funds 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, 2011

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, 2011

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, 2011 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.

New Accounting Pronouncements

The District has implemented the requirements of GASB Statement No. 54 during the fiscal year ended June 30, 2011.

GASB Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) effective for reporting periods after June 15, 2010. The statement establishes fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosures of nonspendable and spendable resources. The District has adopted GASB 54 in the fiscal year 2010-2011 financial statements and has disclosed information about fund balance reporting in a subsequent note on fund balance reporting.

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

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.

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 \$250,000 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.

HEBER PUBLIC UTILITY DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011**

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 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, 2011:

	Category			Bank Balances	Carrying Amount
	1	2	3		
Deposits					
Cash In County Treasury	\$ 4,805	\$ --	\$ --	\$ 4,805	\$ 4,805
Demand deposits	<u>2,640,802</u>	<u>--</u>	<u>--</u>	<u>2,640,802</u>	<u>2,640,802</u>
	<u>\$2,645,607</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,645,607</u>	<u>\$2,645,607</u>

Cash and investments are reported as follows on the Statement of Net Assets
Cash and investments \$2,645,607

At June 30, 2011, the carrying amount of the Districts cash deposits in various financial institutions amounted to \$2,645,607. Of the bank balance, \$250,000 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, 2011, the reserve bank accounts are as follows:

	2011
Water Fund:	
System repair & replacement	\$ 154,387
System operation & maintenance	161,391
System short lived assets	95,066
System debt service	<u>30,086</u>
Total water reserve accounts	<u>\$ 440,930</u>
Wastewater Fund:	
System repair & replacement	\$ 126,160
System operations & maintenance	125,840
System capital improvement & debt retirement	<u>66,623</u>
Total wastewater reserve accounts	<u>\$ 318,623</u>

HEBER PUBLIC UTILITY DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011**

NOTE 4. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments due on November 1 and delinquent if paid after December 10 and February 1 and delinquent if paid after April 10. Property taxes are collected by the County of Imperial and distributed to the District in installments during the fiscal year. District property tax revenues are recognized when received.

NOTE 5. CAPITAL ASSETS

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

	Balance June 30, 2010	Additions / Transfers In	Deletions / Transfers Out	Balance June 30, 2011
Governmental activities:				
Land	\$ 508,867	\$ --	\$ --	\$ 508,867
Buildings	443,468	55,504	--	498,972
Machinery and equipment	49,873	20,408	--	70,281
Furniture and fixtures	72,089	1,350	2,801	70,638
Computer equipment	<u>36,950</u>	<u>--</u>	<u>1,104</u>	<u>35,846</u>
Total capital assets	<u>1,111,247</u>	<u>77,262</u>	<u>3,905</u>	<u>1,184,604</u>
Less accumulated depreciation for:				
Buildings	204,429	9,276	--	213,705
Machinery and equipment	46,098	4,094	--	50,192
Computer equipment	34,387	1,506	--	35,893
Furniture and fixtures	<u>27,631</u>	<u>4,659</u>	<u>--</u>	<u>32,290</u>
Total accumulated depreciation	<u>312,545</u>	<u>19,535</u>	<u>--</u>	<u>332,080</u>
Governmental activities capital assets, net	<u>\$ 798,702</u>	<u>\$ 57,727</u>	<u>\$ 3,905</u>	<u>\$ 852,524</u>
 Business-type activities:				
Land	\$ 512,276	\$ --	\$ --	\$ 512,276
Structures & Improvements	319,091	--	--	319,091
Machinery and equipment	334,855	50,163	--	385,018
Computer equipment	82,326	12,765	--	95,091
Infrastructure	21,314,567	3,858,573	--	25,173,140
Construction in process	<u>5,526,760</u>	<u>210,644</u>	<u>3,858,573</u>	<u>1,878,831</u>
Total capital assets	<u>28,089,875</u>	<u>4,132,145</u>	<u>3,858,573</u>	<u>28,363,447</u>
Less accumulated depreciation for:				
Structures & Improvements	100,759	13,314	--	114,073
Machinery and Equipment	193,388	28,326	--	221,714
Computer equipment	79,028	7,553	--	86,581
Infrastructure	<u>5,501,644</u>	<u>660,890</u>	<u>--</u>	<u>6,162,534</u>
Total accumulated depreciation	<u>5,874,819</u>	<u>710,083</u>	<u>--</u>	<u>6,584,902</u>
Business-type activities capital assets, net	<u>\$ 22,215,056</u>	<u>\$ 3,422,062</u>	<u>\$ 3,858,573</u>	<u>\$ 21,778,545</u>

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 5. CAPITAL ASSETS (CONTINUED)

Depreciation

Depreciation expense was charged to functions as follows:

Governmental Activities

General Government	<u>\$ 19,535</u>
--------------------	------------------

Business-type Activities

Water	\$ 421,418
Wastewater	288,665
Solid Waste	<u> --</u>
	<u>\$ 710,083</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 2008. The following is the remaining future payment the District will make:

Year:	Payment:
2011/2012	\$ 1,434

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, 2011:

Wastewater Enterprise Certificated of Participation Loan 2000	\$ 873,500
2009 U.S.D.A. Loan	3,407,000
Water Enterprise Certificates of Participation Loan 2002	1,013,000
Governmental Capital	<u>125,645</u>
Total	<u>\$ 5,419,145</u>

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

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, 2011:

	1972 Water Bonds
Bonds Payable – July 1, 2010	\$ 6,000
Bonds currently retired	<u>(6,000)</u>
Bonds Payable – June 30, 2011	<u>\$ 0</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

- 1972 Waterworks Serial Bonds – The 1972 waterworks serial bonds, totaling \$112,000, were issued on January 1, 1972. Annual installments, currently \$6,000, are due each January 1. Annual interest payments are due January 1 with interest at 5.0%. The District paid the remaining balance of \$6,000 at June 30, 2011.
- Note Payable Fonzie 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 District paid the remaining balance of \$132,956 at June 30, 2011.
- 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, 2011 was \$873,500.

HEBER PUBLIC UTILITY DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011**

NOTE 7. LONG-TERM DEBT (Continued)

Business-Type Activities (Continued)

- **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, 2011 was \$1,013,000.
- **Installment Sale Agreement – 2009 Water System Improvement Project** – Certificates of Participation with a principal amount not to exceed \$3,533,000 were issued July 20, 2009. The interest rate is 2.63% and maturing June 1, 2049. The purpose of this agreement is to secure the loan from the USDA RDA. The obligation is for providing financing for the acquisition and installation of certain water system improvements. The principal amount outstanding at June 30, 2011 was \$3,407,000.
- **Lease purchase agreement** – The obligation is with Government Capital Corporation and executed on March 12, 2009 with a principal amount not to exceed \$202,000. The interest rate is 5.16% and maturing on August 15, 2013. The lease purpose was to acquire an automatic meter reading system. The principal amount outstanding at June 30, 2011 was \$125,645.

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,	Loans Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2012	\$ 39,792	\$ 6,485	\$ 98,000	\$ 169,229
2013	41,846	4,431	98,000	165,981
2014	44,007	2,271	108,000	162,527
2015	--	--	108,000	158,848
2016 – 2020	--	--	595,000	735,864
2021 – 2025	--	--	731,000	622,127
2026 – 2030	--	--	780,000	495,909
2031 – 2035	--	--	857,600	356,757
2036 – 2040	--	--	915,000	204,437
2041 – 2045	--	--	602,900	70,862
2046 – 2049	--	--	400,000	15,081
	<u>\$ 125,645</u>	<u>\$ 13,187</u>	<u>\$ 5,293,500</u>	<u>\$ 3,157,622</u>

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 8. FUND BALANCE REPORTING

The District has adopted GASB 54 as part of its 2010-2011 fiscal year reporting. Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structural classification of fund balance and improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major fund types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The District does not have any prepaid items or nonspendable funds related to endowments.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

Restricted: fund balances that are constrained by external parties, constitutional provisions or enabling legislation.

Committed: fund balances include amounts that can be used only for the specific purposes determined by a formal action of the City Council (the Agency's highest level of decision making authority).

Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

The Agency has classified its fund balances with the following hierarchy:

Restricted: The District has debt service funds totaling \$7,697 that is classified as restricted.

Unassigned: The unassigned fund balance is \$219,042.

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 9. EMPLOYEE RETIREMENT PLAN

Plan Description

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

Funding Policy

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

Annual Pension Cost

For the fiscal year ended June 30, 2011, the District's annual pension cost including employees' contribution was \$93,391 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 (c) 3.25% payroll growth and (d) inflation of 3%. The actuarial value of assets used for funding purposes is obtained through a technique that smoothes the effect of short-term market value fluctuations on employer contribution rates. The Miscellaneous Plan of the Heber Public Utility District's unfunded actuarial liability was zero as of June 30, 2011.

Three-Year Trend Information for Miscellaneous Plan

Fiscal Year June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	60,732	100%	--
2010	67,123	100%	--
2011	93,391	100%	--

Required Supplementary Information

HEBER PUBLIC UTILITY DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011**

NOTE 9. EMPLOYEE RETIREMENT PLAN (Continued)

Risk Pool Valuation

Effective with the June 30, 2004 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
2008	1,537,909,933	1,337,707,835	200,202,098	87.0%	333,307,600	60.1%
2009	1,834,424,640	1,493,430,831	340,993,809	81.4%	355,150,151	96.0%
2010	1,972,910,641	1,603,482,152	369,428,489	81.3%	352,637,380	104.8%

NOTE 10. 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.

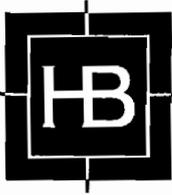
NOTE 11. COMMITMENTS AND CONTINGENCIES

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. Heber Public Utility District received grant monies in the amount of \$325,574 during the fiscal year.

NOTE 12. SUBSEQUENT EVENTS

Management has reviewed subsequent events through March 2, 2012, the report date, and determined that there are no reportable events.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the general purpose financial statements of the Heber Public Utility District as of and for the year ended June 30, 2011, and have issued our report thereon dated March 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Heber Public Utility District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Heber Public Utility District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Heber Public Utility District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heber Public Utility District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 provision 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 are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Directors, 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. However, this report is a matter of public record and its distribution is not limited.

Hutchinson and Bloodgood LLP

March 2, 2012