

**HEBER PUBLIC UTILITY DISTRICT**

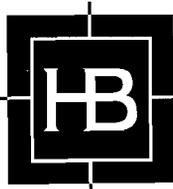
**GENERAL PURPOSE  
FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2012**

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**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, 2012, 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 audits 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 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, 2012, 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 December 28, 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 important for 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*

December 28, 2012

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2012**

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, 2012. 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 2011-2012 fiscal year by \$21,396,278 (*Net Assets*). Of those net assets, \$2,822,075 are unrestricted. Total Restricted Net Assets for the District is \$18,574,203.
- As of June 30, 2012, the District's governmental funds reported total ending fund balances of \$196,121, a decrease of \$30,618 in comparison with the prior year.
- At the end of the current fiscal year, the Business Type Activities assets exceeded its liabilities by \$20,364,833, an increase of \$1,553,156 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, 2012**

**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, 2012**

**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 \$21,396,278 (see Table 1) at the close of the current fiscal year.

The portion of the District's net assets reflects unrestricted net assets of \$2,822,075. Investment in capital assets (e.g., infrastructures, improvements, and construction in progress); less any related outstanding debt used to acquire those assets is \$21,854,517. 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 \$824,935. 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, 2012**

**Table 1 – Heber Public Utility District Net Assets  
June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Current Assets:</b>		
Cash and Investments	\$ 1,627,055	\$ 2,645,607
Receivables	714,930	327,707
Due From Other Funds	248,836	254,346
Notes Receivable	26,122	32,413
Capital Assets	<u>27,713,302</u>	<u>22,631,070</u>
<b>Total Assets</b>	<u>30,330,245</u>	<u>25,891,143</u>
<b>Current and Other Liabilities</b>	3,125,451	671,633
Customer Deposit Payable	69,577	53,216
Long-Term Liabilities	<u>5,738,939</u>	<u>5,275,353</u>
<b>Total Liabilities</b>	<u>8,933,967</u>	<u>6,000,202</u>
<b>Net Assets:</b>		
Restricted	18,574,203	18,591,404
Unrestricted	<u>2,822,075</u>	<u>1,299,537</u>
<b>Total Net Assets</b>	<u>\$ 21,396,278</u>	<u>\$ 19,890,941</u>

**Table 2 - Heber Public Utility District Changes in Net Assets  
for the Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Program revenues:</b>		
Charge for services	\$ 2,946,859	\$ 2,839,938
Federal Grants	1,570,430	325,574
Royalties and services	<u>73,780</u>	<u>87,106</u>
	4,591,069	3,252,618
<b>General revenues:</b>		
Property tax	366,354	422,251
Other revenue	<u>75,894</u>	<u>68,460</u>
<b>Total revenues</b>	<u>5,033,317</u>	<u>3,743,329</u>
<b>Program expenses:</b>		
General government	248,461	209,848
Water	1,570,681	1,581,249
Wastewater	1,265,840	1,271,596
Solid waste	<u>442,998</u>	<u>426,523</u>
<b>Total expenses</b>	<u>3,527,980</u>	<u>3,489,216</u>
Change in Net Assets:	<u>\$ 1,505,337</u>	<u>\$ 254,113</u>

**Heber Public Utility District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2012**

**Governmental Activities**

Governmental activities decreased the District's net assets by \$47,819 for the year ended June 30, 2012.

**Business-type Activities**

The Business-type activities change in net assets increased by \$1,553,156.

- Depreciation expense for business type activities amounted to \$750,414 for the fiscal year.
- Revenues for service charges amounted to \$2,946,859.

**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, 2012, The District's governmental funds reported total net assets of \$1,031,445. The unrestricted net assets, which are available to meet the District's future capital projects and future obligations, is \$196,121. 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 \$200,642 at June 30, 2012. Expenditures for government functions totaled \$231,260 at June 30, 2012.

**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, 2012**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2012, the District's investment in capital assets for its governmental and business-type activities amounted to \$27,713,302 (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>2012 Total Fixed Assets</b>	<b>2011 Total Fixed Assets</b>
Land	\$ 1,021,143	\$ 1,021,143
Infrastructure & Improvements	18,808,749	19,500,891
Furniture and Equipment	255,883	230,205
Construction In Process	<u>7,627,527</u>	<u>1,878,831</u>
 Total	 <u>\$ 27,713,302</u>	 <u>\$ 22,631,070</u>

**Long-Term Debt**

At the end of the current fiscal year, the District had total long-term debt outstanding of \$5,858,785 which is described in the table below.

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

	<b>2012</b>	<b>2011</b>
2002 Water enterprise Certificates of Participations	\$ --	\$ 1,013,000
2000 Wastewater enterprise Certificates of Participations	858,500	873,500
Governmental Capital Corporation	85,852	125,645
2009 USDA Loan	3,344,000	3,407,000
2012 SRF WWTP Loan	<u>1,570,433</u>	<u>--</u>
 Total	 <u>\$ 5,858,785</u>	 <u>\$ 5,419,145</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, 2012**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 97,481	\$ 1,529,574	\$ 1,627,055
Receivables	112,711	602,219	714,930
Due from other funds	--	248,836	248,836
Noncurrent assets:			
Note receivable	--	26,122	26,122
Capital assets net of accumulated depreciation			
Land	508,867	512,276	1,021,143
Infrastructure	--	18,316,039	18,316,039
Structures and improvements	276,769	215,941	492,710
Equipment	49,688	206,195	255,883
Construction in process	--	7,627,527	7,627,527
Total assets	1,045,516	29,284,729	30,330,245
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	1,008	2,619,068	2,620,076
Accrued payroll	13,063	123,649	136,712
Due to other funds	--	248,817	248,817
Noncurrent liabilities:			
Customer deposits payable	--	69,577	69,577
Due within one year	--	119,846	119,846
Due in more than one year	--	5,738,939	5,738,939
Total liabilities	14,071	8,919,896	8,933,967
<b>NET ASSETS</b>			
Restricted	835,324	17,738,879	18,574,203
Unrestricted	196,121	2,625,954	2,822,075
Total net assets	\$ 1,031,445	\$ 20,364,833	\$ 21,396,278

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, 2012**

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
<b>Primary Government:</b>							
Governmental activities							
Special Revenue	\$ 248,461	\$ 73,780	\$ --	\$ --	\$ (174,681)	\$ --	\$ (174,681)
Other governmental activities	--	--	--	--	--	--	--
Total Governmental Activities	<u>248,461</u>	<u>73,780</u>	<u>--</u>	<u>--</u>	<u>(174,681)</u>	<u>--</u>	<u>(174,681)</u>
<b>Business activities</b>							
Water	1,570,681	1,406,510	--	--	--	(164,171)	(164,171)
Wastewater	1,265,840	1,059,149	1,570,430	--	--	1,363,739	1,363,739
Solid Waste	<u>442,998</u>	<u>481,200</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>38,202</u>	<u>38,202</u>
Total Business Type Activities	<u>3,279,519</u>	<u>2,946,859</u>	<u>1,570,430</u>	<u>--</u>	<u>--</u>	<u>1,237,770</u>	<u>1,237,770</u>
<b>General revenues:</b>							
Property tax					123,931	242,423	366,354
Other revenue					2,931	72,963	75,894
Transfers in (out)					--	--	--
Total general revenues					<u>126,862</u>	<u>315,386</u>	<u>442,248</u>
Change in net assets					(47,819)	1,553,156	1,505,337
Net assets - beginning					<u>1,079,264</u>	<u>18,811,677</u>	<u>19,890,941</u>
Net assets - ending					<u>\$ 1,031,445</u>	<u>\$ 20,364,833</u>	<u>\$ 21,396,278</u>

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

**HEBER PUBLIC UTILITY DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012**

	Special Revenue	Debt Service	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 92,676	\$ 4,805	\$ 97,481
Accounts receivable	109,819	2,892	112,711
Total Assets	\$ 202,495	\$ 7,697	\$ 210,192
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,008	\$ --	\$ 1,008
Accrued expenses	13,063	--	13,063
Total Liabilities	14,071	--	14,071
<b>FUND BALANCES</b>			
Restricted funds	--	7,697	7,697
Unassigned funds	188,424	--	188,424
Total Fund Balances	188,424	7,697	196,121
Total Liabilities & Fund Balance	\$ 202,495	\$ 7,697	\$ 210,192

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, 2012**

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

Total fund balance - governmental funds	\$ 196,121
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 \$349,281.	<u>835,324</u>
Total net assets - governmental activities	<u>\$ 1,031,445</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, 2012**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Governmental Funds</u>
<b>REVENUE</b>			
Property taxes	\$ 125,273	\$ --	\$ 125,273
Interest	253	--	253
Charges for service	73,780	--	73,780
Other revenue	<u>1,336</u>	<u>--</u>	<u>1,336</u>
Total Revenue	<u>200,642</u>	<u>--</u>	<u>200,642</u>
<b>EXPENDITURES</b>			
General government	231,260	--	231,260
Capital outlay	<u>--</u>	<u>--</u>	<u>--</u>
Total Expenditures	<u>231,260</u>	<u>--</u>	<u>231,260</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(30,618)</u>	<u>--</u>	<u>(30,618)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
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	(30,618)	--	(30,618)
Fund Balance, July 1	<u>219,042</u>	<u>7,697</u>	<u>226,739</u>
Fund Balance, June 30	<u>\$ 188,424</u>	<u>\$ 7,697</u>	<u>\$ 196,121</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, 2012**

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

Net change in fund balances - governmental funds \$ (30,618)

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     (17,201)

Change in net assets - governmental activities     \$ (47,819)

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, 2012**

	<u>Water</u>	<u>Wastewater</u>	<u>Soild Waste</u>	<u>Total</u>
<b>ASSETS</b>				
Current Assets				
Cash and investments	\$ 596,991	\$ 844,665	\$ 87,918	\$ 1,529,574
Receivables	250,445	305,331	46,443	602,219
Note receivable	--	26,122	--	26,122
Due from other funds	20	248,816	--	248,836
Total Current Assets	847,456	1,424,934	134,361	2,406,751
Property and equipment, net	14,498,245	12,379,733	--	26,877,978
Total Noncurrent Assets	14,498,245	12,379,733	--	26,877,978
Total Assets	\$ 15,345,701	\$ 13,804,667	\$ 134,361	\$ 29,284,729
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	\$ 9,140	\$ 2,595,493	\$ 93	\$ 2,604,726
Wages and benefits payable	7,699	7,880	--	15,579
Compensated absences payable	53,556	54,514	--	108,070
Deposits	47,587	29,643	6,689	83,919
Due to other funds	248,817	--	--	248,817
Current portion - long term debt	104,846	15,000	--	119,846
Total Current Liabilities	471,645	2,702,530	6,782	3,180,957
Long term debt	3,325,006	2,413,933	--	5,738,939
Total Noncurrent Liabilities	3,325,006	2,413,933	--	5,738,939
Total Liabilities	3,796,651	5,116,463	6,782	8,919,896
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	10,805,628	6,173,697	--	16,979,325
Restricted	440,931	318,623	--	759,554
Unrestricted	302,491	2,195,884	127,579	2,625,954
Total Net Assets	11,549,050	8,688,204	127,579	20,364,833
Total Liabilities and Net Assets	\$ 15,345,701	\$ 13,804,667	\$ 134,361	\$ 29,284,729

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, 2012**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Charges for service	\$ 1,406,510	\$ 1,059,149	\$ 481,200	\$ 2,946,859
Total Operating Revenue	<u>1,406,510</u>	<u>1,059,149</u>	<u>481,200</u>	<u>2,946,859</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	606,260	553,021	--	1,159,281
Materials and supplies	233,825	78,647	1,300	313,772
Contract and other services	183,613	288,602	441,698	913,913
Depreciation expense	<u>450,728</u>	<u>299,686</u>	<u>--</u>	<u>750,414</u>
Total Operating Expenses	<u>1,474,426</u>	<u>1,219,956</u>	<u>442,998</u>	<u>3,137,380</u>
Operating Income (Loss)	<u>(67,916)</u>	<u>(160,807)</u>	<u>38,202</u>	<u>(190,521)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Property taxes	69,309	173,114	--	242,423
Interest income	5,694	5,594	--	11,288
Grant funds and other revenue	13,814	1,579,749	38,542	1,632,105
Interest expense	<u>(96,255)</u>	<u>(45,884)</u>	<u>--</u>	<u>(142,139)</u>
Total Non-Operating Revenue (Expense)	<u>(7,438)</u>	<u>1,712,573</u>	<u>38,542</u>	<u>1,743,677</u>
Income (Loss) Before Operating Transfers	<u>(75,354)</u>	<u>1,551,766</u>	<u>76,744</u>	<u>1,553,156</u>
Operating Transfers In (Out)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Change in Net Assets	(75,354)	1,551,766	76,744	1,553,156
Net Assets, July 1	<u>11,624,404</u>	<u>7,136,438</u>	<u>50,835</u>	<u>18,811,677</u>
Net Assets, June 30	<u>\$ 11,549,050</u>	<u>\$ 8,688,204</u>	<u>\$ 127,579</u>	<u>\$ 20,364,833</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, 2012**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from users	\$ 1,303,708	\$ 866,368	\$ 473,881	\$ 2,643,957
Cash received from operating activities	76,697	179,773	--	256,470
Cash paid to suppliers	(461,374)	2,160,403	(442,443)	1,256,586
Cash paid to employees	(598,025)	(549,285)	--	(1,147,310)
NET CASH PROVIDED BY OPERATIONS	<u>321,006</u>	<u>2,657,259</u>	<u>31,438</u>	<u>3,009,703</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers in (out)	--	--	--	--
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Interest expense	(96,255)	(45,884)	--	(142,139)
Purchase of fixed assets	(60,332)	(4,219,228)	--	(4,279,560)
Bond principal payments	(1,115,647)	(15,000)	--	(1,130,647)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,272,234)</u>	<u>(4,280,112)</u>	<u>--</u>	<u>(5,552,346)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on cash and investments	5,694	5,594	--	11,288
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,694</u>	<u>5,594</u>	<u>--</u>	<u>11,288</u>
<b>CASH FLOWS FROM OTHER ACTIVITIES</b>				
Grant and other revenue	13,814	1,579,749	38,542	1,632,105
NET CASH PROVIDED BY OTHER ACTIVITIES	<u>13,814</u>	<u>1,579,749</u>	<u>38,542</u>	<u>1,632,105</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(931,720)</u>	<u>(37,510)</u>	<u>69,980</u>	<u>(899,250)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,528,711</u>	<u>882,175</u>	<u>17,938</u>	<u>2,428,824</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 596,991</u>	<u>\$ 844,665</u>	<u>\$ 87,918</u>	<u>\$ 1,529,574</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating Income	\$ 1,393	\$ 12,307	\$ 38,202	\$ 51,902
Adjustments to Reconcile operating Income				
To Net Cash Provided by Operations				
Depreciation and amortization	450,728	299,686	--	750,414
Changes in Assets and Liabilities				--
Increase in receivables	(95,414)	(186,122)	(7,319)	(288,855)
Increase (decrease) in accounts payable	(43,936)	2,527,652	555	2,484,271
Increase in payroll liabilities payable	8,235	3,736	--	11,971
NET CASH PROVIDED BY OPERATIONS	<u>\$ 321,006</u>	<u>\$ 2,657,259</u>	<u>\$ 31,438</u>	<u>\$ 3,009,703</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, 2012**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Current Assets	
Cash and investments	\$ 373,684
Total Current Assets	<u>373,684</u>
Due from property owners	<u>1,849,117</u>
Total Noncurrent Assets	<u>1,849,117</u>
Total Assets	<u><u>\$ 2,222,800</u></u>
<b>LIABILITIES</b>	
Current Liabilities	<u>\$ 108,100</u>
Noncurrent liabilities	
Current portion - long term debt	50,000
Bond obligation	<u>2,064,700</u>
Total Noncurrent Liabilities	<u>2,114,700</u>
Total Liabilities	<u>2,222,800</u>
<b>FUND BALANCE</b>	
Fund Balance	<u>--</u>
Total Fund Balance	<u>--</u>
Total Liabilities & Fund Balance	<u><u>\$ 2,222,800</u></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, 2012**

**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, 2012**

**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, 2012**

**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, 2012

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, 2012**

**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, 2012**

**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
Wastewater plant	25 years
Water plant	40 years

**HEBER PUBLIC UTILITY DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**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, 2012 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.

## HEBER PUBLIC UTILITY DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS June 30, 2012

#### 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, 2012**

**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, 2012:

	<b>Category</b>			<b>Bank Balances</b>	<b>Carrying Amount</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
Deposits					
Cash In County Treasury	\$ 4,805	\$ --	\$ --	\$ 4,805	\$ 4,805
Demand deposits	<u>1,622,250</u>	<u>--</u>	<u>--</u>	<u>1,622,250</u>	<u>1,622,250</u>
	<u>\$1,627,055</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,627,055</u>	<u>\$1,627,055</u>

Cash and investments are reported as follows on the Statement of Net Assets  
Cash and investments \$1,627,055

At June 30, 2012, the carrying amount of the Districts cash deposits in various financial institutions amounted to \$1,730,302. 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, 2012, the reserve bank accounts are as follows:

<b>Water Fund:</b>	<b>2012</b>
System repair & replacement	\$ 155,595
System operation & maintenance	162,781
System short lived assets	143,342
System debt service	42,101
Total water reserve accounts	<u>\$ 503,819</u>
<b>Wastewater Fund:</b>	
System repair & replacement	\$ 127,147
System operations & maintenance	126,825
System capital improvement & debt retirement	67,144
Total wastewater reserve accounts	<u>\$ 321,116</u>

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**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, 2012 was as follows:

	Balance June 30, 2011	Additions / Transfers In	Deletions / Transfers Out	Balance June 30, 2012
<b>Governmental activities:</b>				
Land	\$ 508,867	\$ --	\$ --	\$ 508,867
Buildings	498,972	--	--	498,972
Machinery and equipment	70,282	--	--	70,282
Furniture and fixtures	70,638	--	--	70,638
Computer equipment	<u>35,846</u>	<u>--</u>	<u>--</u>	<u>35,846</u>
Total capital assets	<u>1,184,605</u>	<u>--</u>	<u>--</u>	<u>1,184,605</u>
Less accumulated depreciation for:				
Buildings	213,705	8,498	--	222,203
Machinery and equipment	50,192	4,044	--	54,236
Computer equipment	35,893	--	--	35,893
Furniture and fixtures	<u>32,290</u>	<u>4,659</u>	<u>--</u>	<u>36,949</u>
Total accumulated depreciation	<u>332,080</u>	<u>17,201</u>	<u>--</u>	<u>349,281</u>
Governmental activities capital assets, net	<u>\$ 852,525</u>	<u>\$ (17,201)</u>	<u>\$ --</u>	<u>\$ 835,324</u>
<b>Business-type activities:</b>				
Land	\$ 512,276	\$ --	\$ --	\$ 512,276
Structures & Improvements	319,091	--	--	319,091
Machinery and equipment	385,018	56,916	--	441,934
Computer equipment	95,091	5,376	--	100,467
Infrastructure	25,173,140	38,253	--	25,211,393
Construction in process	<u>1,878,831</u>	<u>5,749,144</u>	<u>448</u>	<u>7,627,527</u>
Total capital assets	<u>28,363,447</u>	<u>5,849,689</u>	<u>448</u>	<u>34,212,688</u>
Less accumulated depreciation for:				
Structures & Improvements	114,073	13,314	--	127,387
Machinery and Equipment	221,714	36,182	--	257,896
Computer equipment	85,975	6,350	--	92,925
Infrastructure	<u>6,162,534</u>	<u>694,568</u>	<u>--</u>	<u>6,857,102</u>
Total accumulated depreciation	<u>6,584,296</u>	<u>750,414</u>	<u>--</u>	<u>7,334,710</u>
Business-type activities capital assets, net	<u>\$ 21,779,151</u>	<u>\$ 5,099,275</u>	<u>\$ (448)</u>	<u>\$ 26,877,978</u>

**HEBER PUBLIC UTILITY DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

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

**Depreciation**

Depreciation expense was charged to functions as follows:

Governmental Activities	
General Government	\$ <u>17,201</u>
Business-type Activities	
Water	\$ 450,728
Wastewater	299,686
Solid Waste	<u>- -</u>
	<u>\$ 750,414</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:

<b>Year:</b>	<b>Payment:</b>
2012/2013	\$ 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, 2012:

2000 Wastewater Enterprise Certificates of Participation Loan	\$ 858,500
2009 U.S.D.A. Certificates of Participation Loan	3,344,000
Governmental Capital	85,852
2012 SRF Wastewater Treatment Expansion Loan	<u>1,570,433</u>
Total	<u>\$ 5,858,785</u>

**HEBER PUBLIC UTILITY DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

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

**Business-Type Activities**

- 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, 2012 was \$858,500.
- 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 total principal outstanding \$1,013,000 was paid in full as of June 30, 2012.
- 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, 2012 was \$3,344,000.
- 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, 2012 was \$85,852.
- Financing Agreement – 1.2 Wastewater Treatment Plant Up-Grade – The obligation is with the California State Water Resources Control Board – State Revolving Fund with a principal amount not to exceed \$10,911,131. The net revenues of the Wastewater fund are pledged to secure this obligation in parity with the 2000 Certificates of Participation with USDA. The obligation is for providing financing for the acquisition and installation for improvements to the wastewater treatment plant. The interest rate is 1.00% and maturing on January 10, 2043. The principal amount outstanding at June 30, 2012 was \$1,570,433.

**HEBER PUBLIC UTILITY DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

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

**Business-Type Activities (Continued)**

**Debt Service Requirements**

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

Year Ended June 30,	Loans Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2013	\$ 41,846	\$ 4,431	\$ 78,000	\$ 121,746
2014	157,442	80,239	78,000	119,417
2015	143,427	47,977	78,000	117,088
2016	144,861	46,543	83,000	114,759
2017 – 2021	746,328	210,692	477,000	533,049
2022 – 2026	422,381	108,264	580,000	450,159
2027 – 2031	--	--	630,000	358,584
2032 – 2036	--	--	700,000	254,372
2037 – 2041	--	--	698,500	137,955
2042 – 2046	--	--	500,000	50,792
2047 – 2049	--	--	300,000	10,173
	<u>\$ 1,656,285</u>	<u>\$ 498,146</u>	<u>\$ 4,202,500</u>	<u>\$ 2,268,094</u>

**HEBER PUBLIC UTILITY DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**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 District 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 \$188,424.

**HEBER PUBLIC UTILITY DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**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, 2012, 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, 2012.

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

<b>Fiscal Year June 30,</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2010	67,123	100%	--
2011	93,391	100%	--
2012	120,287	100%	--

Required Supplementary Information

**HEBER PUBLIC UTILITY DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**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**

<b>Valuation Date</b>	<b>Entry Age Normal Accrued Liability</b>	<b>Actuarial Value of Assets</b>	<b>Unfunded Liability/ (Excess Assets)</b>	<b>Funded Status</b>	<b>Annual Covered Payroll</b>	<b>UAAL As a % of Payroll</b>
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.

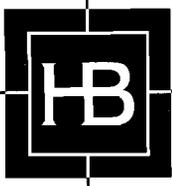
**NOTE 11. COMMITMENTS AND CONTINGENCIES**

***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 \$1,570,430 during the fiscal year.

**NOTE 12. SUBSEQUENT EVENTS**

Management has reviewed subsequent events through December 28, 2012, the report date, and noted there was a change in management. John Jordan, who was the Heber Public Utility District General Manager for the past eight years retired. The Board of Directors for Heber Public Utility District selected Laura Fischer as the new General Manager effective November 20, 2012.



**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, 2012, and have issued our report thereon dated December 28, 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.

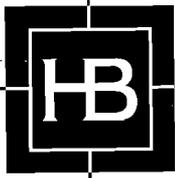
**Compliance and Other Matters**

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

December 28, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Heber Public Utility's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Heber Public Utility District's major federal program for the year ended June 30, 2012. Heber Public Utility District's major federal program is 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 its major federal program is the responsibility of Heber Public Utility District's management. Our responsibility is to express an opinion on 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 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 of Heber Public Utility District's compliance with those requirements.

In our opinion, Heber Public Utility District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Heber Public Utility District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Heber Public Utility District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Heber Public Utility District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Heber Public Utility District as of and for the year ended June 30, 2012, and have issued our report thereon dated December 28, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, Board Members, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hutchinson and Bloodgood LLP

December 28, 2012

**HEBER PUBLIC UTILITY DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2012**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

***Financial Statements***

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified  
not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

***Federal Awards***

Internal Control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified  
not considered to be material weaknesses?  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)?  Yes  No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Clean Water State Revolving Fund

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

Auditee qualified as low-risk auditee?  Yes  No

**HEBER PUBLIC UTILITY DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2012**

<u>Federal Grant/ Program Title</u>	<u>Federal C.F.D.A. Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program Expenditures</u>
<b><u>CLEAN WATER STATE REVOLVING FUND</u></b>			
Clean Water Act	66.458	N/A	\$ <u>1,570,430</u>
		Subtotal 66.458	<u>1,570,430</u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<b><u>\$ 1,570,430</u></b>

**HEBER PUBLIC UTILITY DISTRICT**  
**NOTES OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2012**

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

The accompanying schedule of expenditures of federal awards includes the federal grant activity of 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*.