

HEBER PUBLIC UTILITY DISTRICT

**GENERAL PURPOSE
FINANCIAL STATEMENTS**

**For the Year Ended
June 30, 2013**

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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 Heber Public Utility District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 Heber Public Utility District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of Heber Public Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Heber Public Utility District's internal control over financial reporting and compliance.

Hutchinson and Bloodgood LLP

December 20, 2013

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

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, 2013. 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 2012-2013 fiscal year by \$25,659,329 (*Net Position*). Of those net assets, \$22,846,178 are invested in capital assets net of related debt, \$1,038,037 are restricted, and \$1,775,114 are unrestricted.
- As of June 30, 2013, the District's governmental funds reported total ending fund balances of \$192,119, a decrease of \$4,002 in comparison with the prior year.
- At the end of the current fiscal year, the Business Type Activities assets exceeded its liabilities by \$24,639,154, an increase of \$4,274,321 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 Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 Position 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 11 and 12 of this report.

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

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 13 and 15 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 17 to 19 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 20.

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

3. Notes to the Financial Statements

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

The notes to the financial statements are presented on pages 21 to 37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$25,659,329 (see Table 1) at the close of the current fiscal year.

The portion of the District's net position reflects unrestricted net position of \$1,775,114. Investment in capital assets (e.g., infrastructures, improvements, and construction in progress); less any related outstanding debt used to acquire those assets is \$22,846,178. 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 position represents resources that are subject to external restrictions on how they may be used and amounts to \$1,038,037. The portion of the restricted net position 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 position.

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

**Table 1 – Heber Public Utility District Net Position
June 30, 2013 and 2012**

	2013	2012
Current Assets:		
Cash and Investments	\$ 2,632,787	\$ 1,627,055
Receivables	697,626	714,930
Due From Other Funds	248,836	248,836
Notes Receivable	19,736	26,122
Capital Assets	<u>32,429,759</u>	<u>27,713,302</u>
Total Assets	<u>36,028,744</u>	<u>30,330,245</u>
Current and Other Liabilities	704,997	3,125,451
Customer Deposit Payable	80,837	69,577
Long-Term Liabilities	<u>9,583,581</u>	<u>5,738,939</u>
Total Liabilities	<u>10,369,415</u>	<u>8,933,967</u>
Net Position:		
Invested in capital assets net of related debt	22,846,178	16,979,325
Restricted	1,038,037	1,594,878
Unrestricted	<u>1,775,114</u>	<u>2,822,075</u>
Total Net Position	<u>\$ 25,659,329</u>	<u>\$ 21,396,278</u>

**Table 2 - Heber Public Utility District Changes in Net Position
for the Years Ended June 30, 2013 and 2012**

	2013	2012
Program revenues:		
Charge for services	\$ 3,035,583	\$ 2,946,859
Federal Grants	4,429,570	1,570,430
Royalties and services	<u>73,097</u>	<u>73,780</u>
	7,538,250	4,591,069
General revenues:		
Property tax	341,137	366,354
Other revenue	<u>27,876</u>	<u>75,894</u>
Total revenues	<u>7,907,263</u>	<u>5,033,317</u>
Program expenses:		
General government	269,008	248,461
Water	1,610,561	1,570,681
Wastewater	1,316,472	1,265,840
Solid waste	<u>448,171</u>	<u>442,998</u>
Total expenses	<u>3,644,212</u>	<u>3,527,980</u>
Change in Net Position:	<u>\$ 4,263,051</u>	<u>\$ 1,505,337</u>

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

Governmental Activities

Governmental activities decreased the District's net assets by \$11,270 for the year ended June 30, 2013.

Business-type Activities

The Business-type activities change in net position increased by \$4,274,321.

- Depreciation expense for business type activities amounted to \$812,490 for the fiscal year.
- Revenues for service charges amounted to \$3,035,583.

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, 2013, The District's governmental funds reported total net assets of \$1,020,175. The unrestricted net assets, which are available to meet the District's future capital projects and future obligations, is \$192,119. 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 \$257,738 at June 30, 2013. Expenditures for government functions totaled \$269,008 at June 30, 2013.

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, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the District's investment in capital assets for its governmental and business-type activities amounted to \$32,429,759 (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)

	2013 Total Fixed Assets	2012 Total Fixed Assets
Land	\$ 1,021,143	\$ 1,021,143
Infrastructure & Improvements	30,603,795	18,808,749
Furniture and Equipment	164,157	255,883
Construction In Process	<u>640,664</u>	<u>7,627,527</u>
Total	<u>\$ 32,429,759</u>	<u>\$ 27,713,302</u>

Long-Term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$9,583,581 which is described in the table below.

Table 4 - The District's Outstanding Debt

	2013	2012
2000 Wastewater enterprise Certificates of Participations	\$ 843,500	\$ 858,500
Governmental Capital Corporation	44,006	85,852
2009 USDA Loan	3,281,000	3,344,000
2012 SRF WWTP Loan	<u>5,415,075</u>	<u>1,570,433</u>
Total	<u>\$ 9,583,581</u>	<u>\$ 5,858,785</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 POSITION
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 165,154	\$ 2,467,633	\$ 2,632,787
Receivables net of allowance for doubtful accounts	52,231	645,395	697,626
Due from other funds	--	248,836	248,836
Noncurrent assets:			
Note receivable	--	19,736	19,736
Capital assets net of accumulated depreciation			
Land	508,867	512,276	1,021,143
Infrastructure	--	30,039,877	30,039,877
Structures and improvements	268,271	295,647	563,918
Equipment	43,353	120,804	164,157
Construction in process	7,565	633,099	640,664
Total assets	<u>1,045,441</u>	<u>34,983,303</u>	<u>36,028,744</u>
LIABILITIES			
Current liabilities:			
Accounts payable	15,930	301,378	317,308
Accrued payroll	9,336	129,536	138,872
Due to other funds	--	248,817	248,817
Noncurrent liabilities:			
Customer deposits payable	--	80,837	80,837
Due within one year	--	268,895	268,895
Due in more than one year	--	9,314,686	9,314,686
Total liabilities	<u>25,266</u>	<u>10,344,149</u>	<u>10,369,415</u>
NET POSITION			
Invested in capital assets net of related debt	828,056	22,018,122	22,846,178
Restricted	--	1,038,037	1,038,037
Unrestricted	192,119	1,582,995	1,775,114
Total net position	<u>\$ 1,020,175</u>	<u>\$ 24,639,154</u>	<u>\$ 25,659,329</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, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Asset Primary Government		
		Royalties & Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Primary Government:							
Governmental activities							
Special Revenue	\$ 269,008	\$ 73,097	\$ --	\$ --	\$ (195,911)	\$ --	\$ (195,911)
Other governmental activities	--	--	--	--	--	--	--
Total Governmental Activities	<u>269,008</u>	<u>73,097</u>	<u>--</u>	<u>--</u>	<u>(195,911)</u>	<u>--</u>	<u>(195,911)</u>
Business activities							
Water	1,610,561	1,405,158	--	--	--	(205,403)	(205,403)
Wastewater	1,316,472	1,148,967	4,429,570	--	--	4,262,065	4,262,065
Solid Waste	<u>448,171</u>	<u>481,458</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>33,287</u>	<u>33,287</u>
Total Business Type Activities	<u>3,375,204</u>	<u>3,035,583</u>	<u>4,429,570</u>	<u>--</u>	<u>--</u>	<u>4,089,949</u>	<u>4,089,949</u>
General revenues:							
Property tax					180,423	160,714	341,137
Other revenue					4,218	23,658	27,876
Transfers in (out)					--	--	--
Total general revenues					<u>184,641</u>	<u>184,372</u>	<u>369,013</u>
Change in net position					(11,270)	4,274,321	4,263,051
Net position - beginning					<u>1,031,445</u>	<u>20,364,833</u>	<u>21,396,278</u>
Net position - ending					<u>\$ 1,020,175</u>	<u>\$ 24,639,154</u>	<u>\$ 25,659,329</u>

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

**HEBER PUBLIC UTILITY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 160,349	\$ 4,805	\$ 165,154
Accounts receivable	<u>49,339</u>	<u>2,892</u>	<u>52,231</u>
Total Assets	<u><u>\$ 209,688</u></u>	<u><u>\$ 7,697</u></u>	<u><u>\$ 217,385</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 15,930	\$ --	\$ 15,930
Accrued expenses	<u>9,336</u>	<u>--</u>	<u>9,336</u>
Total Liabilities	<u><u>25,266</u></u>	<u><u>--</u></u>	<u><u>25,266</u></u>
FUND BALANCES			
Restricted funds	--	7,697	7,697
Unassigned funds	<u>184,422</u>	<u>--</u>	<u>184,422</u>
Total Fund Balances	<u><u>184,422</u></u>	<u><u>7,697</u></u>	<u><u>192,119</u></u>
Total Liabilities & Fund Balance	<u><u>\$ 209,688</u></u>	<u><u>\$ 7,697</u></u>	<u><u>\$ 217,385</u></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 POSITION
June 30, 2013**

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

Total fund balance - governmental funds	\$ 192,119
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Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. The cost of the assets is \$1,192,169 and the accumulated depreciation is \$364,113.	<u>828,056</u>
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Total net position - governmental activities	<u><u>\$ 1,020,175</u></u>
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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, 2013

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Governmental Funds</u>
REVENUE			
Property taxes	\$ 180,423	\$ --	\$ 180,423
Interest	257	--	257
Charges for service	73,097	--	73,097
Other revenue	<u>3,961</u>	--	<u>3,961</u>
Total Revenue	<u>257,738</u>	--	<u>257,738</u>
EXPENDITURES			
General government	255,126	--	255,126
Capital outlay	<u>6,615</u>	--	<u>6,615</u>
Total Expenditures	<u>261,741</u>	--	<u>261,741</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(4,003)</u>	--	<u>(4,003)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers in	--	--	--
Operating Transfers out	<u>--</u>	--	<u>--</u>
Total Other Financing Sources (Uses)	<u>--</u>	--	<u>--</u>
Net change in fund balances	(4,003)	--	(4,003)
Fund Balance, July 1	<u>188,425</u>	<u>7,697</u>	<u>196,122</u>
Fund Balance, June 30	<u><u>\$ 184,422</u></u>	<u><u>\$ 7,697</u></u>	<u><u>\$ 192,119</u></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, 2013**

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

Net change in fund balances - governmental funds	\$ (4,003)
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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	(14,832)
Capitalized repairs	<u>7,565</u>

Change in net position - governmental activities	<u><u>\$ (11,270)</u></u>
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The notes to the financial statements are an integral part of this statement.

HEBER PUBLIC UTILITY DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	<u>Water</u>	<u>Wastewater</u>	<u>Soild Waste</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and investments	\$ 831,770	\$ 1,474,957	\$ 160,906	\$ 2,467,633
Receivables	162,460	437,053	45,882	645,395
Note receivable	-	19,736	-	19,736
Due from other funds	<u>20</u>	<u>248,816</u>	<u>-</u>	<u>248,836</u>
Total Current Assets	<u>994,250</u>	<u>2,180,562</u>	<u>206,788</u>	<u>3,381,600</u>
Property and equipment, net	<u>14,304,248</u>	<u>17,297,455</u>	<u>-</u>	<u>31,601,703</u>
Total Noncurrent Assets	<u>14,304,248</u>	<u>17,297,455</u>	<u>-</u>	<u>31,601,703</u>
Total Assets	<u>\$ 15,298,498</u>	<u>\$ 19,478,017</u>	<u>\$ 206,788</u>	<u>\$ 34,983,303</u>
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 206,513	\$ 58,585	\$ 36,280	\$ 301,378
Wages and benefits payable	9,978	8,413	-	18,391
Compensated absences payable	55,778	55,367	-	111,145
Deposits	40,480	32,641	7,716	80,837
Due to other funds	248,817	-	-	248,817
Current portion - long term debt	<u>141,614</u>	<u>15,000</u>	<u>-</u>	<u>156,614</u>
Total Current Liabilities	<u>703,180</u>	<u>170,006</u>	<u>43,996</u>	<u>917,182</u>
Long term debt	<u>3,183,392</u>	<u>6,243,575</u>	<u>-</u>	<u>9,426,967</u>
Total Noncurrent Liabilities	<u>3,183,392</u>	<u>6,243,575</u>	<u>-</u>	<u>9,426,967</u>
Total Liabilities	<u>3,886,572</u>	<u>6,413,581</u>	<u>43,996</u>	<u>10,344,149</u>
NET POSITION				
Invested in capital assets, net of related debt	10,979,242	11,038,880	-	22,018,122
Restricted	505,685	532,352	-	1,038,037
Unrestricted	<u>(73,001)</u>	<u>1,493,204</u>	<u>162,792</u>	<u>1,582,995</u>
Total Net Position	<u>11,411,926</u>	<u>13,064,436</u>	<u>162,792</u>	<u>24,639,154</u>
Total Liabilities and Net Position	<u>\$ 15,298,498</u>	<u>\$ 19,478,017</u>	<u>\$ 206,788</u>	<u>\$ 34,983,303</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 POSITION
PROPRIETARY FUNDS
Fiscal Year Ended June 30, 2013

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
OPERATING REVENUE				
Charges for service	<u>\$ 1,460,515</u>	<u>\$ 1,254,324</u>	<u>\$ 481,458</u>	<u>\$ 3,196,297</u>
Total Operating Revenue	<u>1,460,515</u>	<u>1,254,324</u>	<u>481,458</u>	<u>3,196,297</u>
OPERATING EXPENSES				
Salaries and benefits	643,432	564,334	--	1,207,766
Materials and supplies	204,567	88,816	1,250	294,633
Contract and other services	215,087	267,463	446,921	929,471
Depreciation expense	<u>455,264</u>	<u>357,226</u>	<u>--</u>	<u>812,490</u>
Total Operating Expenses	<u>1,518,350</u>	<u>1,277,839</u>	<u>448,171</u>	<u>3,244,360</u>
Operating Income (Loss)	<u>(57,835)</u>	<u>(23,515)</u>	<u>33,287</u>	<u>(48,063)</u>
NONOPERATING REVENUE (EXPENSE)				
Interest income	3,963	4,003	--	7,966
Grant funds and other revenue	8,960	4,434,377	1,925	4,445,262
Interest expense	<u>(92,211)</u>	<u>(38,633)</u>	<u>--</u>	<u>(130,844)</u>
Total Non-Operating Revenue (Expense)	<u>(79,288)</u>	<u>4,399,747</u>	<u>1,925</u>	<u>4,322,384</u>
Income (Loss) Before Operating Transfers	<u>(137,123)</u>	<u>4,376,232</u>	<u>35,212</u>	<u>4,274,321</u>
Operating Transfers In (Out)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Change in Net Position	<u>(137,123)</u>	<u>4,376,232</u>	<u>35,212</u>	<u>4,274,321</u>
Net Position, July 1	<u>11,549,050</u>	<u>8,688,204</u>	<u>127,579</u>	<u>20,364,833</u>
Net Position, June 30	<u><u>\$ 11,411,927</u></u>	<u><u>\$ 13,064,436</u></u>	<u><u>\$ 162,791</u></u>	<u><u>\$ 24,639,154</u></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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from users	\$ 1,488,946	\$ 1,013,049	\$ 482,020	\$ 2,984,015
Cash received from operating activities	59,554	109,553	--	169,107
Cash paid to suppliers	(229,388)	(2,890,189)	(410,957)	(3,530,534)
Cash paid to employees	<u>(638,931)</u>	<u>(562,948)</u>	<u>--</u>	<u>(1,201,879)</u>
NET CASH PROVIDED (USED) BY OPERATIONS	<u>680,181</u>	<u>(2,330,535)</u>	<u>71,063</u>	<u>(1,579,291)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Interest expense	(92,211)	(38,633)	--	(130,844)
Purchase of fixed assets	(261,267)	(5,268,560)	--	(5,529,827)
Bond proceeds	--	3,844,642	--	3,844,642
Bond principal payments	<u>(104,846)</u>	<u>(15,000)</u>	<u>--</u>	<u>(119,846)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(458,324)</u>	<u>(1,477,551)</u>	<u>--</u>	<u>(1,935,875)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on cash and investments	<u>3,963</u>	<u>4,003</u>	<u>--</u>	<u>7,966</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,963</u>	<u>4,003</u>	<u>--</u>	<u>7,966</u>

CASH FLOWS FROM OTHER ACTIVITIES

Grant and other revenue	<u>8,959</u>	<u>4,434,375</u>	<u>1,925</u>	<u>4,445,259</u>
NET CASH PROVIDED BY OTHER ACTIVITIES	<u>8,959</u>	<u>4,434,375</u>	<u>1,925</u>	<u>4,445,259</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

<u>234,779</u>	<u>630,292</u>	<u>72,988</u>	<u>938,059</u>
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CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

<u>596,991</u>	<u>844,665</u>	<u>87,918</u>	<u>1,529,574</u>
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CASH AND CASH EQUIVALENTS - END OF YEAR

<u>\$ 831,770</u>	<u>\$ 1,474,957</u>	<u>\$ 160,906</u>	<u>\$ 2,467,633</u>
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CASH FLOWS FROM OPERATING ACTIVITIES

Operating (Loss) Income	\$ (57,835)	\$ (23,515)	\$ 33,287	\$ (48,063)
Adjustments to Reconcile operating Income To Net Cash Provided (Used) by Operations				
Depreciation and amortization	455,264	357,226	--	812,490
Changes in Assets and Liabilities				
(Increase) decrease in receivables	87,985	(131,722)	562	(43,175)
Increase (decrease) in accounts payable	190,266	(2,533,910)	37,214	(2,306,430)
Increase (decrease) in payroll liabilities payable	<u>4,501</u>	<u>1,386</u>	<u>--</u>	<u>5,887</u>
NET CASH PROVIDED (USED) BY OPERATIONS	<u>\$ 680,181</u>	<u>\$ (2,330,535)</u>	<u>\$ 71,063</u>	<u>\$ (1,579,291)</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, 2013**

	<u>Agency Fund</u>
ASSETS	
Current Assets	
Cash and investments	\$ 532,720
Accounts receivable	<u>7,553</u>
Total Current Assets	<u>540,273</u>
 Due from property owners	 <u>1,624,809</u>
Total Noncurrent Assets	<u>1,624,809</u>
 Total Assets	 <u><u>\$ 2,165,081</u></u>
 LIABILITIES	
Current Liabilities	<u>\$ 100,381</u>
 Noncurrent liabilities	
Current portion - long term debt	55,000
Bond obligation	<u>2,009,700</u>
Total Noncurrent Liabilities	<u>2,064,700</u>
 Total Liabilities	 <u><u>\$ 2,165,081</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, 2013

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 in Note 2.

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 position 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, 2013

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 position 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, 2013

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, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

***Measurement Focus* (Continued)**

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

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

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

Basis of Accounting

The government-wide 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, 2013

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, 2013

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, 2013

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, 2013 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.

Adoption of Government Accounting Standards Board Statements

The District adopted the provisions of GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.*" The adoption of this statements had no effect on previously reported amounts.

The District adopted the provisions of GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*" The adoption of this new statement had no effect on previously reported amounts.

The District adopted the provisions of GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" The adoption of this statement resulted in changed language in the titles of reports and captions, but had no effect on previously reported amounts.

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Upcoming Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial statement elements deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65 will be implemented by the District in the 2014 fiscal year.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The District is currently evaluating the impact this standard will have in the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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, 2013:

	Category			Bank Balances	Carrying Amount
	1	2	3		
Deposits					
Cash In County Treasury	\$ 4,805	\$ - -	\$ - -	\$ 4,805	\$ 4,805
Demand deposits	<u>2,627,982</u>	<u>- -</u>	<u>- -</u>	<u>2,719,514</u>	<u>2,627,982</u>
	<u>\$2,632,787</u>	<u>\$ - -</u>	<u>\$ - -</u>	<u>\$ 2,724,319</u>	<u>\$2,632,787</u>

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

Cash and investments	<u>\$2,632,787</u>
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At June 30, 2013, the carrying amount of the Districts cash deposits in various financial institutions amounted to \$2,724,319. 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, 2013, the reserve bank accounts are as follows:

Water Fund:	2013
System repair & replacement	\$ 155,595
System operation & maintenance	162,781
System short lived assets	145,208
System debt service	<u>42,101</u>
Total water reserve accounts	<u>\$ 505,685</u>
Wastewater Fund:	
System repair & replacement	\$ 127,381
System operations & maintenance	127,705
System capital improvement & debt retirement	<u>277,266</u>
Total wastewater reserve accounts	<u>\$ 532,352</u>

HEBER PUBLIC UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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, 2013 was as follows:

	Balance June 30, 2012	Additions / Transfers In	Deletions / Transfers Out	Balance June 30, 2013
Governmental activities:				
Land	\$ 508,867	\$ --	\$ --	\$ 508,867
Buildings	498,972	--	--	498,972
Machinery and equipment	70,281	--	--	70,281
Furniture and fixtures	70,638	--	--	70,638
Construction in process	--	7,565	--	7,565
Computer equipment	35,846	--	--	35,846
Total capital assets	<u>1,184,604</u>	<u>7,565</u>	<u>--</u>	<u>1,192,169</u>
Less accumulated depreciation for:				
Buildings	222,203	8,498	--	230,701
Machinery and equipment	54,236	2,034	--	56,270
Computer equipment	35,893	(47)	--	35,846
Furniture and fixtures	36,949	4,347	--	41,296
Total accumulated depreciation	<u>349,281</u>	<u>14,832</u>	<u>--</u>	<u>364,113</u>
Governmental activities capital assets, net	<u>\$ 835,323</u>	<u>\$ (7,267)</u>	<u>\$ --</u>	<u>\$ 828,056</u>
 Business-type activities:				
Land	\$ 512,276	\$ --	\$ --	\$ 512,276
Structures & Improvements	319,091	195,067	--	514,158
Machinery and equipment	480,188	5,998	(146,761)	339,425
Computer equipment	101,375	3,938	--	105,313
Infrastructure	25,173,140	12,472,403	--	37,645,543
Construction in process	7,627,527	5,458,820	(12,453,248)	633,099
Total capital assets	<u>34,213,597</u>	<u>18,136,226</u>	<u>(12,600,009)</u>	<u>39,749,813</u>
Less accumulated depreciation for:				
Structures & Improvements	103,149	115,360	--	218,509
Machinery and Equipment	282,134	23,443	(82,539)	223,038
Computer equipment	93,234	7,662	--	100,896
Infrastructure	6,857,102	748,564	--	7,605,666
Total accumulated depreciation	<u>7,335,619</u>	<u>895,029</u>	<u>(82,539)</u>	<u>8,148,110</u>
Business-type activities capital assets, net	<u>\$ 26,877,978</u>	<u>\$ 5,099,275</u>	<u>\$ (448)</u>	<u>\$ 31,601,703</u>

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 5. CAPITAL ASSETS (CONTINUED)

Depreciation

Depreciation expense was charged to functions as follows:

Governmental Activities

General Government	\$ <u>14,832</u>
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Business-type Activities

Water	\$ 455,264
Wastewater	<u>357,226</u>
	<u>\$ 812,490</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 \$335 beginning January 2008. The following is the remaining future payment the District will make:

Year:	Payment:
2013/2014	\$ 4,020
2014/2015	4,020
2015/2016	<u>1,005</u>
Total:	<u>9,045</u>

NOTE 7. LONG-TERM DEBT

Debts to be repaid solely by ad valorem taxes are categorized as long-term liabilities of the general government. Debt instruments, such as the Certificate of Participation loans, that call for the payment of both principal and interest to be secured by the fees for services collected by the enterprise activities are classified as liabilities of the enterprise funds. The following is a schedule of long-term liabilities for the year ended June 30, 2013:

2000 Wastewater Enterprise Certificates of Participation Loan	\$ 843,500
2009 U.S.D.A. Certificates of Participation Loan	3,281,000
Governmental Capital	44,006
2012 SRF Wastewater Treatment Expansion Loan	<u>5,415,075</u>
Total	<u>\$ 9,583,581</u>

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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, 2013 was \$843,500.
- 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, 2013 was \$3,281,000.
- 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, 2013 was \$44,006.
- 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, 2013 was \$5,415,075.

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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
2014	\$ 190,895	\$ 48,573	\$ 78,000	\$ 121,071
2015	158,776	51,346	78,000	118,742
2016	159,028	51,094	83,000	116,413
2017	160,618	49,504	84,000	113,833
2018 – 2022	827,505	223,103	508,000	526,145
2023 – 2027	869,717	180,892	585,000	440,765
2028 – 2032	914,081	136,527	645,000	347,053
2033 – 2037	960,708	89,900	710,000	240,515
2038 – 2042	1,009,714	40,894	653,500	124,212
2043 – 2047	208,039	2,080	500,000	45,935
2048 – 2049	- -	- -	200,000	7,889
	<u>\$ 5,459,081</u>	<u>\$ 873,913</u>	<u>\$ 4,124,500</u>	<u>\$ 2,202,573</u>

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 8. FUND BALANCE REPORTING

The governmental fund financial statements segregate portions of fund balance that are either not available or have been earmarked for specific purposes. Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

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 District 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 \$184,422.

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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, 2013, the District's annual pension cost including employees' contribution was \$127,330 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, 2013.

Three-Year Trend Information for Miscellaneous Plan

Fiscal Year June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	93,391	100%	--
2012	120,287	100%	--
2013	127,330	100%	--

HEBER PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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
2010	1,972,910,641	1,603,482,152	369,428,489	81.3%	352,637,380	104.8%
2011	2,135,350,204	1,724,200,585	411,149,619	80.8%	350,121,750	117.4%
2012	2,254,622,362	1,837,489,422	417,132,940	81.5%	339,228,272	123.0%

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 evaluated its June 30, 2013 financial statements for subsequent events through December 20, 2013, the date of issuance of the financial statements. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.



**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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Heber Public Utility District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Heber Public Utility District's basic financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Heber Public Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Heber Public Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of Heber Public Utility District's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heber Public Utility District's financial statements are free from 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 provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hutchinson and Bloodgood LLP

December 20, 2013



**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

Report on Compliance for Each Major Federal Program

We have audited Heber Public Utility District'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 programs for the year ended June 30, 2013. Heber Public Utility District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Heber Public Utility District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Heber Public Utility District's compliance.

Opinion on Each Major Federal Program

In our opinion, Heber Public Utility District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Heber Public Utility District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Heber Public Utility District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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, 2013, and have issued our report thereon dated December 20, 2013, 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.

Hutchinson and Bloodgood LLP

December 20, 2013

HEBER PUBLIC UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

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: Unmodified

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, 2013

<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>
<u>ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed Through California State Water Resources Control Board			
Clean Water State Revolving Fund	66.458	11-826-550	<u>\$ 5,187,709</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 5,187,709</u>

HEBER PUBLIC UTILITY DISTRICT

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2013**

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*.