

HEBER PUBLIC UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2014

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Heber Public Utility District
El Centro, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Heber Public Utility District, as of and for the year ended June 30, 2014, 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.

Auditors' 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, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the District'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 District'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, and each major fund of the Heber Public Utility District as of June 30, 2014, 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, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Emphasis of Matters

As discussed in Note 1d to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets and liabilities during fiscal year 2013-2014 due to the adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard resulted in no change to net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as identified in the accompanying table of contents 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.

White Nelson Dick Evans LLP

Carlsbad, California
December 18, 2014

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2014**

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, 2014. 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 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 2013-2014 fiscal year by \$25,784,583 (*Net Position*). The net position is composed of \$23,281,459 invested in capital assets net of related debt, \$ 466,520 which is restricted for debt service, and \$2,036,604 which is unrestricted.
- As of June 30, 2014, the District's governmental funds reported total ending fund balances of \$246,448, an increase of \$54,329 in comparison with the prior year.
- At the end of the current fiscal year, the Business-Type Activities assets exceeded its liabilities by \$24,697,145, an increase of \$57,991 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 distinguish 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 10,11 and 12 of this report.

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2014**

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, proprietary 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 through 16 of this report.

Proprietary funds are reported as enterprise funds. Enterprise funds are reported as functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for the Water, Sewer and Solid Waste (Trash) operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Solid waste operations and are considered to be major funds of the District.

The basic proprietary financial statements are presented on pages 17, 18 and 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, 2014**

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 34 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 \$25,784,583 (see Table 1) at the close of the current fiscal year.

The portion of the District's net position which is reflected as unrestricted is \$2,036,604. The amount of net position in capital assets (e.g., infrastructures, improvements, and construction in progress); less any related outstanding debt used to acquire those assets is \$23,281,459. 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 \$466,520. The portion of the restricted net position is the aggregate amount for short lived assets, 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, 2014**

**Table 1 – Heber Public Utility District Net Position
June 30, 2014 and 2013**

Current Assets:	2014	2013
Cash and Investments	\$ 2,494,655	\$ 2,632,787
Receivables	379,807	697,626
Notes Receivable	13,255	19,736
Capital Assets	<u>31,788,294</u>	<u>32,429,759</u>
Total Assets	<u>34,676,011</u>	<u>35,779,908</u>
Current and Other Liabilities	171,023	456,180
Customer Deposit Payable	78,591	80,837
Long-Term Liabilities	<u>8,641,814</u>	<u>9,583,581</u>
Total Liabilities	<u>8,891,428</u>	<u>10,120,598</u>
Net Position:		
Invested in capital assets net of related debt	23,281,459	22,846,178
Restricted for debt service	466,520	1,038,037
Unrestricted	<u>2,036,604</u>	<u>1,775,114</u>
Total Net Position	<u>\$ 25,784,583</u>	<u>\$25,659,329</u>

**Table 2 - Heber Public Utility District Changes in Net Position
for the Years Ended June 30, 2014 and 2013**

Program revenues:	2014	2013
Charge for services	\$ 3,325,041	\$ 3,035,583
Federal Grants	-	4,429,570
Royalties and services	<u>77,686</u>	<u>73,097</u>
	3,402,727	7,538,250
General revenues:		
Property tax	353,388	341,137
Other revenue	<u>45,221</u>	<u>27,876</u>
Total revenues	<u>3,801,336</u>	<u>7,907,263</u>
Program expenses:		
General government	313,024	269,008
Water	1,538,150	1,610,561
Wastewater	1,360,158	1,316,472
Solid waste	<u>464,750</u>	<u>448,171</u>
Total expenses	<u>3,676,082</u>	<u>3,644,212</u>
Change in Net Position:	<u>\$ 125,254</u>	<u>\$ 4,263,051</u>

**Heber Public Utility District
Management's Discussion and Analysis
For the Year Ended June 30, 2014**

Governmental Activities

Governmental activities increased the District's net position by \$67,263 for the year ended June 30, 2014.

Business-type Activities

The Business-type activities increased the District's net position by \$57,911.

- Depreciation expense for business type activities amounted to \$848,166 for the fiscal year.
- Revenues for service charges amounted to \$3,325,041.

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, 2014, The District's governmental funds reported total net fund balances of \$246,448. The unassigned fund balance, which is available to meet the District's future capital projects and future obligations, is \$238,751.

The District's management may also designate unassigned fund balance to a particular function, project, or activity. However, unassigned fund balance is available for appropriations at any time.

Revenues for governmental functions totaled \$380,287 at June 30, 2014. Expenditures for government functions totaled \$325,958 at June 30, 2014.

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, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the District's investment in capital assets for its governmental and business-type activities amounted to \$31,788,294 (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)

	2014	2013
	Total Fixed	Total Fixed
	Assets	Assets
Land	\$ 1,021,143	\$ 1,021,143
Infrastructure & Improvements	29,872,460	30,603,795
Furniture and Equipment	174,271	164,157
Construction In Process	<u>720,420</u>	<u>640,664</u>
Total	<u>\$ 31,788,294</u>	<u>\$ 32,429,759</u>

Long-Term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$8,506,835 which is described in the table below.

Table 4 - The District's Outstanding Debt

	2014	2013
2000 Wastewater Enterprise Certificates of Participations	\$ -	\$ 843,500
Governmental Capital Corporation	-	44,006
2009 USDA Loan	3,218,000	3,281,000
2012 SRF WWTP Loan	<u>5,288,835</u>	<u>5,415,075</u>
Total	<u>\$ 8,506,835</u>	<u>\$ 9,583,581</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.

BASIC FINANCIAL STATEMENTS

HEBER PUBLIC UTILITY DISTRICTSTATEMENT OF NET POSITION
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 246,046	\$ 1,782,089	\$ 2,028,135
Restricted cash and cash equivalents	-	466,520	466,520
Accounts receivable	18,625	361,182	379,807
Note receivable	-	13,255	13,255
Total Current Assets	264,671	2,623,046	2,887,717
Noncurrent Assets:			
Capital Assets:			
Capital assets not being depreciated	516,432	1,225,131	1,741,563
Capital assets, net of depreciation	333,787	29,712,944	30,046,731
Total Capital Assets	850,219	30,938,075	31,788,294
Total Noncurrent Assets	850,219	30,938,075	31,788,294
TOTAL ASSETS	1,114,890	33,561,121	34,676,011
LIABILITIES			
Current Liabilities:			
Accounts payable	16,366	124,202	140,568
Accrued interest payable	-	12,653	12,653
Accrued wages and benefits payable	1,857	15,945	17,802
Deposits	-	78,591	78,591
Long-term debt due within one year	-	221,110	221,110
Current portion of compensated absences	4,229	65,750	69,979
Total Current Liabilities	22,452	518,251	540,703
Noncurrent Liabilities:			
Long-term debt due in more than one year	-	8,285,725	8,285,725
Compensated absences	5,000	60,000	65,000
Total Noncurrent Liabilities	5,000	8,345,725	8,350,725
TOTAL LIABILITIES	27,452	8,863,976	8,891,428
NET POSITION			
Net investment in capital assets	850,219	22,431,240	23,281,459
Restricted for debt service	-	466,520	466,520
Unrestricted	237,219	1,799,385	2,036,604
TOTAL NET POSITION	\$ 1,087,438	\$ 24,697,145	\$ 25,784,583

HEBER PUBLIC UTILITY DISTRICT

STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
Parks and recreation	\$ 313,024	\$ 77,686	\$ -	\$ -
Other governmental activities	-	-	-	-
Total governmental activities	<u>313,024</u>	<u>77,686</u>	<u>-</u>	<u>-</u>
Business-Type Activities				
Water	1,538,150	1,595,731	-	-
Wastewater	1,360,158	1,245,996	-	-
Solid waste	464,750	483,314	-	-
Total business-type activities	<u>3,363,058</u>	<u>3,325,041</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 3,676,082</u>	<u>\$ 3,402,727</u>	<u>\$ -</u>	<u>\$ -</u>

GENERAL REVENUES

Property taxes
Investment earnings
Other revenues
Total General Revenues

CHANGES IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

Net (Expense)/Revenue and Changes in Net Position Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (235,338)	\$ -	\$ (235,338)
<u>-</u>	<u>-</u>	<u>-</u>
<u>(235,338)</u>	<u>-</u>	<u>(235,338)</u>
-	57,581	57,581
-	(114,162)	(114,162)
-	18,564	18,564
<u>-</u>	<u>(38,017)</u>	<u>(38,017)</u>
<u>(235,338)</u>	<u>(38,017)</u>	<u>(273,355)</u>
296,388	57,000	353,388
41	1,534	1,575
6,172	37,474	43,646
<u>302,601</u>	<u>96,008</u>	<u>398,609</u>
67,263	57,991	125,254
<u>1,020,175</u>	<u>24,639,154</u>	<u>25,659,329</u>
<u>\$ 1,087,438</u>	<u>\$ 24,697,145</u>	<u>\$ 25,784,583</u>

HEBER PUBLIC UTILITY DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 241,241	\$ 4,805	\$ 246,046
Accounts receivable	15,733	2,892	18,625
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 256,974</u>	<u>\$ 7,697</u>	<u>\$ 264,671</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 16,366	\$ -	\$ 16,366
Accrued expenses	1,857	-	1,857
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>18,223</u>	<u>-</u>	<u>18,223</u>
FUND BALANCES			
Restricted	-	7,697	7,697
Unassigned	238,751	-	238,751
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>238,751</u>	<u>7,697</u>	<u>246,448</u>
TOTAL LIABILITIES AND FUND BALANCES			
	<u>\$ 256,974</u>	<u>\$ 7,697</u>	<u>\$ 264,671</u>

HEBER PUBLIC UTILITY DISTRICT

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2014

	<u>Amount</u>
Fund balances for governmental funds	\$ 246,448
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in governmental funds (net of accumulated depreciation).	850,219
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position: Compensated absences	(9,229)
Net position of governmental activities	<u>\$ 1,087,438</u>

HEBER PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2014

	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Property Taxes	\$ 296,388	\$ -	\$ 296,388
Interest	41	-	41
Charges for services	77,686	-	77,686
Other revenues	6,172	-	6,172
Total Revenues	<u>380,287</u>	<u>-</u>	<u>380,287</u>
EXPENDITURES			
Capital outlay	42,604	-	42,604
General government	283,354	-	283,354
Total Expenditures	<u>325,958</u>	<u>-</u>	<u>325,958</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>54,329</u>	<u>-</u>	<u>54,329</u>
NET CHANGES IN FUND BALANCES	54,329	-	54,329
FUND BALANCES AT BEGINNING OF YEAR	<u>184,422</u>	<u>7,697</u>	<u>192,119</u>
FUND BALANCES AT END OF YEAR	<u>\$ 238,751</u>	<u>\$ 7,697</u>	<u>\$ 246,448</u>

HEBER PUBLIC UTILITY DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

	<u>Amount</u>
Net changes in fund balances - total governmental funds	\$ 54,329
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlays	\$ 39,873
Depreciation expense	<u>(17,710)</u>
	22,163
The issuance of long-term liabilities provides current financial resources to governmental funds, while the repayment of the principal of long- term liabilities consumes current financial resources of governmental funds. However these transactions have no effect on net position:	
Net increase in compensated absences payable	(9,229)
	<u> </u>
Change in net position of governmental activities	<u><u>\$ 67,263</u></u>

HEBER PUBLIC UTILITY DISTRICTSTATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 630,844	\$ 932,486	\$ 218,759	\$ 1,782,089
Restricted cash and cash equivalents	255,520	211,000	-	466,520
Accounts receivable	184,863	129,883	46,436	361,182
Note receivable	-	13,255	-	13,255
Due from other funds	-	223,935	-	223,935
Total Current Assets	<u>1,071,227</u>	<u>1,510,559</u>	<u>265,195</u>	<u>2,846,981</u>
Noncurrent Assets:				
Capital Assets:				
Capital assets not being depreciated	712,855	512,276	-	1,225,131
Capital assets, net of depreciation	<u>13,268,566</u>	<u>16,444,378</u>	<u>-</u>	<u>29,712,944</u>
Total Noncurrent Assets	<u>13,981,421</u>	<u>16,956,654</u>	<u>-</u>	<u>30,938,075</u>
TOTAL ASSETS	<u>15,052,648</u>	<u>18,467,213</u>	<u>265,195</u>	<u>33,785,056</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	7,036	43,765	73,401	124,202
Accrued interest payable	6,712	5,941	-	12,653
Accrued wages and benefits payable	8,653	7,292	-	15,945
Deposits	38,907	31,736	7,948	78,591
Due to other funds	223,935	-	-	223,935
Long-term debt due within one year	63,000	158,110	-	221,110
Current portion of compensated absences	32,525	33,225	-	65,750
Total Current Liabilities	<u>380,768</u>	<u>280,069</u>	<u>81,349</u>	<u>742,186</u>
Noncurrent Liabilities:				
Long-term debt due in more than one year	3,155,000	5,130,725	-	8,285,725
Compensated absences	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>60,000</u>
Total Noncurrent Liabilities	<u>3,185,000</u>	<u>5,160,725</u>	<u>-</u>	<u>8,345,725</u>
TOTAL LIABILITIES	<u>3,565,768</u>	<u>5,440,794</u>	<u>81,349</u>	<u>9,087,911</u>
NET POSITION				
Net investment in capital assets	10,763,421	11,667,819	-	22,431,240
Restricted for debt service	255,520	211,000	-	466,520
Unrestricted	<u>467,939</u>	<u>1,147,600</u>	<u>183,846</u>	<u>1,799,385</u>
TOTAL NET POSITION	<u>\$ 11,486,880</u>	<u>\$ 13,026,419</u>	<u>\$ 183,846</u>	<u>\$ 24,697,145</u>

See accompanying independent auditors' report and notes to financial statements.

HEBER PUBLIC UTILITY DISTRICTSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 1,595,731	\$ 1,245,996	\$ 483,314	\$ 3,325,041
Total Operating Revenues	<u>1,595,731</u>	<u>1,245,996</u>	<u>483,314</u>	<u>3,325,041</u>
OPERATING EXPENSES				
Salaries and benefits	596,074	537,495	21,216	1,154,785
Materials and supplies	224,816	115,551	1,657	342,024
Contract and other services	161,522	222,186	441,877	825,585
Depreciation	460,629	387,537	-	848,166
Total Operating Expenses	<u>1,443,041</u>	<u>1,262,769</u>	<u>464,750</u>	<u>3,170,560</u>
OPERATING INCOME (LOSS)	<u>152,690</u>	<u>(16,773)</u>	<u>18,564</u>	<u>154,481</u>
NONOPERATING REVENUES (EXPENSES)				
Property Taxes	-	57,000	-	57,000
Interest income	540	994	-	1,534
Other revenue	16,832	18,151	2,491	37,474
Interest expense	(95,109)	(97,389)	-	(192,498)
Total Nonoperating Revenues (Expenses)	<u>(77,737)</u>	<u>(21,244)</u>	<u>2,491</u>	<u>(96,490)</u>
Changes In Net Position	74,953	(38,017)	21,055	57,991
Net Position at Beginning of Year	<u>11,411,927</u>	<u>13,064,436</u>	<u>162,791</u>	<u>24,639,154</u>
Net Position at End of Year	<u>\$ 11,486,880</u>	<u>\$ 13,026,419</u>	<u>\$ 183,846</u>	<u>\$ 24,697,145</u>

HEBER PUBLIC UTILITY DISTRICT

 STATEMENT OF CASH FLOWS
 For the year ended June 30, 2014

	Water	Wastewater	Solid Waste	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 1,563,725	\$ 1,601,774	\$ 485,482	\$ 3,650,981
Cash paid to vendors and suppliers for materials and services	(585,815)	(352,557)	(406,413)	(1,344,785)
Cash paid for employee wages, benefits and related costs	(590,652)	(530,758)	(21,216)	(1,142,626)
Net cash provided (used) by operating activities	<u>387,258</u>	<u>718,459</u>	<u>57,853</u>	<u>1,163,570</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from property taxes	-	57,000	-	57,000
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>57,000</u>	<u>-</u>	<u>57,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(137,801)	(46,736)	-	(184,537)
Principal paid on long-term debt	(107,006)	(969,740)	-	(1,076,746)
Interest paid on long-term debt	(88,397)	(91,448)	-	(179,845)
Net cash and cash equivalents provided (used) by capital and related financing activities	<u>(333,204)</u>	<u>(1,107,924)</u>	<u>-</u>	<u>(1,441,128)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment income received	540	994	-	1,534
Net cash provided (used) by investment activities	<u>540</u>	<u>994</u>	<u>-</u>	<u>1,534</u>
Net increase (decrease) in cash and cash equivalents	54,594	(331,471)	57,853	(219,024)
Cash and cash equivalents, beginning of year	<u>831,770</u>	<u>1,474,957</u>	<u>160,906</u>	<u>2,467,633</u>
Cash and cash equivalents, end of year	<u>\$ 886,364</u>	<u>\$ 1,143,486</u>	<u>\$ 218,759</u>	<u>\$ 2,248,609</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 152,690	\$ (16,773)	\$ 18,564	\$ 154,481
Adjustments to reconcile operating income (loss) to Net cash provided by operating activities:				
Depreciation	460,629	387,537	-	848,166
Other nonoperating revenues (expense), net	16,832	18,151	2,491	37,474
Changes in operating assets and liabilities:				
(Increase) decrease in assets:				
Receivables	(22,403)	313,651	(554)	290,694
Due from other funds	-	24,881	-	24,881
Increase (decrease) in liabilities:				
Accounts payable	(199,477)	(14,820)	37,120	(177,177)
Accrued payroll and compensated absences	5,422	6,737	-	12,159
Deposits	(1,573)	(905)	232	(2,246)
Due to other funds	(24,862)	-	-	(24,862)
Total Adjustments	<u>234,568</u>	<u>735,232</u>	<u>39,289</u>	<u>1,009,089</u>
Net cash provided (used) by operating activities	<u>\$ 387,258</u>	<u>\$ 718,459</u>	<u>\$ 57,853</u>	<u>\$ 1,163,570</u>

HEBER PUBLIC UTILITY DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2014

	<u>Agency Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 460,407
Accounts receivable	6,092
Total Current Assets	<u>466,499</u>
Noncurrent Assets:	
Due from property owners	<u>1,572,149</u>
Total Noncurrent Assets	<u>1,572,149</u>
TOTAL ASSETS	<u><u>\$ 2,038,648</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 28,948
Long-term debt due within one year	55,000
Total Current Liabilities	<u>83,948</u>
Noncurrent Liabilities:	
Long-term debt due in more than one year	<u>1,954,700</u>
Total Noncurrent Liabilities	<u>1,954,700</u>
TOTAL LIABILITIES	<u><u>\$ 2,038,648</u></u>

June 30, 2014

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The reporting entity "Heber Public Utility District" includes the accounts of the District, and the Heber Public Utility Financing Corporation (HPUFC).

The Heber Public Utility District (HPUD) was formed in 1931 under the Public Utility Act of 1921. HPUD was given the authority to function as a legal entity with powers similar to those of a city administrative body.

Raw water used by HPUD is supplied by the Central Main Canal via the Dogwood Canal, both of which are under the jurisdiction of the Imperial Irrigation District (IID). The water is drawn from the canal, treated, used by the community and then re-treated in HPUD sewage treatment plant, and finally disposed of via agricultural drainage canals to the Salton Sea. Prior to 1972, when the first water treatment plant was completed, raw canal water was chlorinated by HPUD as a major part of the potable treatment process. Currently the water treatment plant is can now treat over 2,000,000 gallons of water per day.

Prior to 1968, sewage treatment needs in Heber were met through the use of septic tanks. Heber's first sewage treatment plant was completed in 1968 with a design capacity of 150,000 gallons per day. In 1981, a new sewage treatment plant was built which more than doubled the previous treatment plant's operating capacity. The District completed an expansion project in 2013 which gave the District capacity of 1,200,000 gallons per day.

The Heber Public Utility District is the primary government unit. Component units are those entities which are financially accountable to the primary government. Since the District's Board of Directors serves as the governing board for HPUFC, it is considered a blended component unit. Blended component units although legally separate entities, are in substance, part of the District's operations and so data from these units are reported with the interfund data of the primary government.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

b. Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

b. Government-Wide and Fund Financial Statements (continued):

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Net position of the District is classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets– This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The fund balance reported on the fund statements consist of the following categories:

Restricted – This classification includes amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers or through enabling legislation.

Committed – This classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s board of directors.

Assigned – This classification includes amounts to be used by the government, authorized by the board of directors, for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned – This classification includes the residual balance for the government’s general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

b. Government-Wide and Fund Financial Statements (Continued):

In the government-wide statements, the District considers restricted funds to be spent first then unrestricted funds when expenditures are incurred for purposes for which both restricted and unrestricted net position is available. In the governmental funds, when both restricted and unrestricted resources are available for use, expenses are considered to be paid first from restricted resources, and then from unrestricted resources. When committed, assigned, or unassigned amounts are available for use, expenses are considered to be paid first from committed, then from assigned, and then unassigned.

The accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the District's governmental funds are presented after the government-wide financial statements. The District elected to show all funds as major funds in the fund financial statements.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Position and the Statement of Activities, activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Proprietary fund equity is classified as net position.

All governmental funds are accounted for using the current financial resources measurement focus and the modified-accrual basis of accounting. 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 at the end of the period. Their revenues are recognized when they become measurable and available. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter (within 60 days) to be available to finance the expenditures accrued for the reporting period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However debt service payments (principal and interest) unpaid vacation, compensatory time and claims and judgments are recorded only when payment is due.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

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.

The **Agency Fund** is custodial in nature and does not involve measurement of results of operations. It accounts 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.

The District reports the following major proprietary funds:

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. Individual enterprise funds are as follows:

Water Operations and Capital- To account for the operations, maintenance, and system construction of the District's water operations, which is funded by user charges and other fees.

Wastewater Operations and Capital- To account for the operations, maintenance, and system construction of the District's wastewater operations, which is funded by user charges and other fees.

Solid Waste Operations and Capital- To account for the operations, maintenance, and system construction of the District's solid waste operations, which is funded by user charges and other fees.

Amounts reported as program revenues include: (1) fees and charges to customers, applicants, and citizens; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenues include all taxes. Program revenues and expenditures are classified by function. Each function is defined as a major department with a department head and separate budget.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges to customers for water, wastewater, and solid waste services. Operating expenses for proprietary funds include the cost of sales and services, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. New Accounting Pronouncements

Current Year Standards:

GASB 65 - *“Items Previously Reported as Assets and Liabilities”*, required to be implemented in the current fiscal year did not impact the District.

GASB 66 - *“Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62”*, required to be implemented in the current fiscal year did not impact the District.

GASB 70 - *“Accounting and Financial Reporting for Nonexchange Financial Guarantees”*, required to be implemented in the current fiscal year did not impact the District.

Pending Accounting Standards:

GASB has issued the following statements which may impact the District’s financial reporting requirements in the future:

GASB 68 - *“Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27”*, effective for the fiscal years beginning after June 15, 2014.

GASB 69 - *“Government Combinations and Disposals of Government Operations”*, effective for periods beginning after December 15, 2013.

GASB 71 - *“Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68”*, effective for periods beginning after June 15, 2014.

e. Cash and Cash Equivalents:

For purposes of the statement of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments purchased with an original maturity of 90 days or less.

f. Restricted Cash and Cash Equivalents:

Certain amounts of cash and cash equivalents are restricted in use by law or debt covenant, and accordingly, are shown as restricted on the Statement of Net Position. For the fiscal year ended June 30, 2014 the District had restricted cash and cash equivalents in the Water and Wastewater funds for \$255,520 and \$211,000, respectively.

g. Receivables and Payables:

Management estimates all receivables at June 30, 2014 to be collectable, as any receivables deemed uncollectable have been written off.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/due from other funds”.

h. Compensated Absences:

Vacation pay is payable to employees at the time used or upon termination of employment. In the government-wide financial statements the cost of vacation pay is recorded as a liability when incurred.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

i. Claims and Judgments:

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2014, in the opinion of the District's Counsel, the District had no material claims which would require loss provision in the financial statements, including losses for claims which are Incurred But Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid, if any.

j. 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.

k. Capital Assets:

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. The District's capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Construction in progress costs are capitalized and transferred to their respective fixed asset category upon completion of the project.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Computer Equipment	3 years
Machinery and equipment	5-15 years
Furniture and fixtures	6-15 years
Buildings	10-45 years
Infrastructure	5-40 years

l. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

m. Interest Expense:

The District incurs interest charges on long-term debt. For fiscal year ended June 30, 2014 the District expensed \$192,498 of interest incurred and capitalized \$31,259 as part of the cost of construction projects.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

n. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of these items as of June 30, 2014.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any of these items as of June 30, 2014.

2. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents at June 30, 2014, are reported in the accompanying financial statements as follows:

Current Assets:

Cash and cash equivalents	\$ 2,028,135
Restricted cash and cash equivalents	466,520
Cash and cash equivalents with fiscal agent*	<u>460,407</u>
Total Cash and Cash Equivalents	<u><u>\$ 2,955,062</u></u>

Cash and cash equivalents at June 30, 2014 consisted of the following:

Deposits with financial institutions	\$ 2,954,562
Cash on hand	<u>500</u>
Total Cash and Cash Equivalents	<u><u>\$ 2,955,062</u></u>

*Reported on the Statement of Fiduciary Net Position.

Custodial Credit Risk:

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2014, \$2,374,149 of the District's deposits with financial institutions in excess of federally depository insurance limits were held in collateralized accounts.

3. CAPITAL ASSETS:

Governmental capital asset activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions & Completed Construction	Balance June 30, 2014
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	\$ 508,867	\$ -	\$ -	\$ 508,867
Construction in process	7,565	-	-	7,565
Total Capital Assets, Not Depreciated	<u>516,432</u>	<u>-</u>	<u>-</u>	<u>516,432</u>
Capital Assets, Being Depreciated:				
Buildings	498,972	12,102	-	511,074
Machinery and equipment	70,281	21,155	-	91,436
Furniture and fixtures	70,638	6,617	-	77,255
Computer equipment	35,846	-	-	35,846
Subtotal	<u>675,737</u>	<u>39,874</u>	<u>-</u>	<u>715,611</u>
Less Accumulated Depreciation For:				
Buildings	(230,701)	(9,478)	-	(240,179)
Machinery and equipment	(56,270)	(2,783)	-	(59,053)
Furniture and fixtures	(41,296)	(5,450)	-	(46,746)
Computer equipment	(35,846)	-	-	(35,846)
Total Accumulated Depreciation	<u>(364,113)</u>	<u>(17,711)</u>	<u>-</u>	<u>(381,824)</u>
Net Capital Assets, Being Depreciated	<u>311,624</u>	<u>22,163</u>	<u>-</u>	<u>333,787</u>
Net Capital Assets	<u>\$ 828,056</u>	<u>\$ 22,163</u>	<u>\$ -</u>	<u>\$ 850,219</u>

3. CAPITAL ASSETS (Continued):

Business-type capital asset activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions & Completed Construction	Balance June 30, 2014
Business-type activities:				
Capital Assets, Not Depreciated:				
Land	\$ 512,276	\$ -	\$ -	\$ 512,276
Construction in process	633,099	79,756	-	712,855
Total Capital Assets, Not Depreciated	<u>1,145,375</u>	<u>79,756</u>	<u>-</u>	<u>1,225,131</u>
Capital Assets, Being Depreciated:				
Structures and improvements	514,158	39,462	-	553,620
Machinery and equipment	339,425	7,623	-	347,048
Infrastructure	37,645,541	41,989	-	37,687,530
Computer Equipment	105,313	15,708	-	121,021
Subtotal	<u>38,604,437</u>	<u>104,782</u>	<u>-</u>	<u>38,709,219</u>
Less Accumulated Depreciation For:				
Structures and improvements	(218,509)	(35,665)	-	(254,174)
Machinery and equipment	(223,038)	(25,289)	-	(248,327)
Infrastructure	(7,605,666)	(779,745)	-	(8,385,411)
Computer Equipment	(100,896)	(7,467)	-	(108,363)
Total Accumulated Depreciation	<u>(8,148,109)</u>	<u>(848,166)</u>	<u>-</u>	<u>(8,996,275)</u>
Net Capital Assets, Being Depreciated	<u>30,456,328</u>	<u>(743,384)</u>	<u>-</u>	<u>29,712,944</u>
Net Capital Assets	<u>\$ 31,601,703</u>	<u>\$ (663,628)</u>	<u>\$ -</u>	<u>\$ 30,938,075</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:	
Parks and recreation	<u>\$ 17,711</u>
Total depreciation expense – governmental activities	<u>\$ 17,711</u>
Business-type Activities:	
Water	\$ 460,629
Wastewater	<u>387,537</u>
Total depreciation expense – business-type activities	<u>\$ 848,166</u>

4. LONG-TERM DEBT

Changes in long-term debt for the year ending June 30, 2014 consist of the following:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Business-type activities:					
2000 Wastewater Enterprise Certificates of Participation	\$ 843,500	\$ -	\$ (843,500)	\$ -	\$ -
2009 U.S.D.A. Certificates of Participation	3,281,000	-	(63,000)	3,218,000	63,000
Governmental Capital Corporation Lease	44,006	-	(44,006)	-	-
2012 SRF Wastewater Treatment Expansion Loan	5,415,075	31,259	(157,499)	5,288,835	158,110
Totals	<u>\$ 9,583,581</u>	<u>\$ 31,259</u>	<u>\$ (1,108,005)</u>	<u>\$ 8,506,835</u>	<u>\$ 221,110</u>

2000 Wastewater Enterprise Certificates of Participation

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 certificates 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 balance was paid off during fiscal year 2014.

2009 U.S.D.A. Certificates of Participation

Certificates of Participation with a principal amount not to exceed \$3,533,000 were issued July 20, 2009, bear an interest rate of 2.63% and mature June 1, 2049. The Certificates of Participation were issued to secure the loan from the USDA RDA and to provide financing for the acquisition and installation of certain water system improvements. The principal amount outstanding at June 30, 2014 was \$3,218,000. Future debt service requirements for the Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 63,000	\$ 84,473	\$ 147,473
2016	63,000	83,046	146,046
2017	64,000	81,165	145,165
2018	64,000	79,485	143,485
2019	64,000	77,805	141,805
2020-2024	450,000	357,392	807,392
2025-2029	450,000	298,094	748,094
2030-2034	500,000	236,379	736,379
2035-2039	500,000	170,726	670,726
2040-2044	500,000	105,116	605,116
2045-2049	500,000	39,389	539,389
	<u>\$ 3,218,000</u>	<u>\$ 1,613,070</u>	<u>\$ 4,831,070</u>

4. LONG-TERM DEBT (Continued):

Government Capital Corporation Lease

This lease purchase agreement executed on March 12, 2009 had a principal amount not to exceed \$202,000, interest rate of 5.16% and matured on August 15, 2013. The purpose of the lease was to acquire an automatic meter reading system. The principal balance was paid off during fiscal year 2014.

2012 SRF Wastewater Treatment Expansion Loan

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 which were paid off in fiscal year 2014. The obligation is for providing financing for the acquisition and installation of improvements to the wastewater treatment plant. The interest rate is 1.00% and matures on January 10, 2043. The principal amount outstanding at June 30, 2014 was \$5,288,835.

Future debt service requirements for the above loan is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 158,110	\$ 52,888	\$ 210,998
2016	159,691	51,307	210,998
2017	161,288	49,710	210,998
2018	162,901	48,097	210,998
2019	164,530	46,468	210,998
2020-2024	847,658	207,332	1,054,990
2025-2029	890,898	164,092	1,054,990
2030-2034	936,344	118,646	1,054,990
2035-2039	984,107	70,883	1,054,990
2040-2043	823,308	20,685	843,993
	<u>\$ 5,288,835</u>	<u>\$ 830,108</u>	<u>\$ 6,118,943</u>

5. EQUIPMENT OPERATING LEASE COMMITMENT:

The District has an operating lease for office equipment rented from Oce Financial Services, Inc. The terms of the contract are 60 monthly payments of \$335 ending September 2015. The lease expense for the year ended June 30, 2014 totaled \$4,020. The following is the remaining future payments required for this lease:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 4,020
2016	<u>1,005</u>
	<u>\$ 5,025</u>

6. SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY:

The District is a member of the Special District Risk Management Authority (SDRMA). Each member District pays for its proportionate share of its individually contracted insurance coverage. The District is insured against the following:

	Insurance Per Occurrence
General Liability (including auto)	\$ 5,000,000
Public Officials & Employee	\$ 5,000,000
Personal Liability for Board Members	\$ 500,000
Employment Practices Liability	\$ 5,000,000
Employee Benefits Liability	\$ 5,000,000
Employee Dishonesty	\$ 400,000
Fire, Theft, and Flood	\$1,000,000,000
Uninsured Motorists	\$ 750,000
Boiler and Machinery	\$ 100,000,000
Workers' Compensation	\$ 5,000,000

Settled claims have not exceeded any of the District's coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the year ended June 30, 2014.

7. DEFINED BENEFIT PENSION PLAN:

Plan Description

The District's employees participate in the Risk Pool of the California Public Employees' Retirement System (CalPERS). This plan is a cost-sharing, multiple-employer defined benefit pension plan administered by CalPERS. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

In September 2012 the Governor signed AB 340 and AB 197, two bills which enacted the California Public Employees' Pension Reform Act of 2013 (PEPRA). AB 340 established a new retirement plan that made several changes to the pension benefits that are offered to employees hired on or after January 1, 2013, including setting a new maximum benefit, a lower-cost pension formula for safety and non-safety employees (miscellaneous) with requirements to work longer in order to reach full retirement age, and a cap on the amount used to calculate the pension. Among other things, AB 340 also enacted pension spiking reform for new and existing employees, required three-year averaging of final compensation for new employees, and provided new authority to negotiate cost-sharing agreements with current employees. AB 340 also placed limitations on the use of retired annuitants, requiring that an annuitant have a six-month break in service prior to returning to work. AB 197 contained corrections to two drafting errors discovered in AB 340.

7. DEFINED BENEFIT PENSION PLAN (Continued):

Funding Policy

The contribution requirements of the plan members and the District are established and may be amended by the CalPERS. Participants are required to contribute 7% of their annual covered salary. The District makes the 7% contribution on behalf of the full-time employees. The District does not make any contribution on the part-time employees' behalf. The rates are set by statute and therefore remain unchanged from year to year. The present rate for the District is 11.214% for local miscellaneous employees.

The District is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the CalPERS actuaries and actuarial consultants and adopted by the Board of Administration.

Three-Year Trend Information for CalPERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$ 120,287	100%	-
6/30/13	\$ 127,330	100%	-
6/30/14	\$ 131,301	100%	-

Actuarial Methods and Assumptions

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	21 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.42%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the District's annual pension cost and actual contribution was \$131,301. The required contribution for the fiscal year ended June 30, 2014 was determined as part of the June 30, 2011 actuarial valuation.

Funding Status

As of June 30, 2004, the District's miscellaneous plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

8. COMMITMENTS AND CONTINGENT LIABILITIES:

Grant Audit Contingencies:

Grant funds received by the District are subject to audit by the grantor agencies. Such audits could lead to request for reimbursements to grantor agencies for expenditures disallowed under terms of the grant. District management believes disallowances, if any, will be immaterial.

Litigation:

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

9. INTERFUND TRANSACTIONS:

a. Individual interfund receivables and payables at June 30, 2014 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Water Fund	\$ -	\$ 223,935
Wastewater Fund	<u>223,935</u>	<u>-</u>
Total All Funds	<u>\$ 223,935</u>	<u>\$ 223,935</u>

The Wastewater fund loaned cash to the Water Fund to fund the completion of the 3MG water storage tank project.

10. SUBSEQUENT EVENTS:

Events occurring after June 30, 2014 have been evaluated for possible adjustments to the financial statements or disclosures as of December 18, 2014, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
 SPECIAL REVENUE FUND
 For the year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, JULY 1	\$ 184,422	\$ 184,422	\$ 184,422	\$ -
RESOURCES (INFLOWS):				
Property taxes	256,000	299,000	296,388	(2,612)
Interest	2,800	2,800	41	(2,759)
Charges for services	75,700	75,700	77,686	1,986
Other revenues	8,000	8,000	6,172	(1,828)
Amount Available for Appropriations	342,500	385,500	380,287	(5,213)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Capital outlay	31,500	31,500	42,604	(11,104)
General government	308,700	308,700	292,583	16,117
Total Charges to Appropriations	340,200	340,200	335,187	5,013
NET CHANGE IN FUND BALANCE	2,300	45,300	45,100	(200)
FUND BALANCE, JUNE 30	\$ 186,722	\$ 229,722	\$ 229,522	\$ (200)

1. BUDGETS AND BUDGETARY ACCOUNTING:

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.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

Expenditures exceeded budgeted appropriations in the Special Revenue Fund by \$200.