

Herlong Public Utility District

FINANCIAL STATEMENTS

AUDIT REPORT

December 31, 2018



Herlong Public Utility District

Herlong, CA

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Herlong Public Utility District as of and for the year-ended December 31, 2018, 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Herlong Public Utility District as of December 31, 2018, and the respective changes in financial position, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information and Budget VS. Actual comparison 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 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 principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with managements 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 assurances on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide an assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated , on our consideration of the Herlong 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 and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Zach Pehling, CPA, MBA

Herlong Public Utility District

**Audit Report
December 31, 2018**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	4
Financial Statements	
Statement of Net Position.....	7
Statement of Activities.....	8
Statement of Net Position – Proprietary Funds.....	9
Statement of Revenues and Expenses and Changes in Net Position – Proprietary Fund.....	11
Statement of Cash Flows.....	12
Balance Sheet.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	14
Notes to Financial Statements.....	15
Supplemental Information	
Funds –Budget versus Actual Fire.....	28
Funds –Budget versus Actual Water.....	29
Funds –Budget versus Actual Sewer.....	30
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	31

Herlong Public Utility District
Management's Discussion and Analysis
For the Year-Ended December 31, 2018

Our discussion and analysis of the financial activities for the fiscal year-ended December 31, 2018. Please review it in conjunction with the District's basic financial statements.

Financial Highlights

The District has shown a pattern of increasing revenues over the past years, primarily from grant awards.

- Total Net Position was \$16,456,421
- Overall Revenues were \$ 1,319,345
- Operating Revenues were \$ 1,216,520
- Overall Expenses were \$ 1,674,991
- The District Invested in Capital Assets during the current year. Capital Expenditures totaled \$254,222.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of four statements (1) Net Position, (2) Activities, (3) Proprietary fund statement of Net Position, (4) Proprietary fund statement of Revenues and Expenses and the Notes to the Financial Statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The District's financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities, regardless of when cash is received or paid. Net position, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

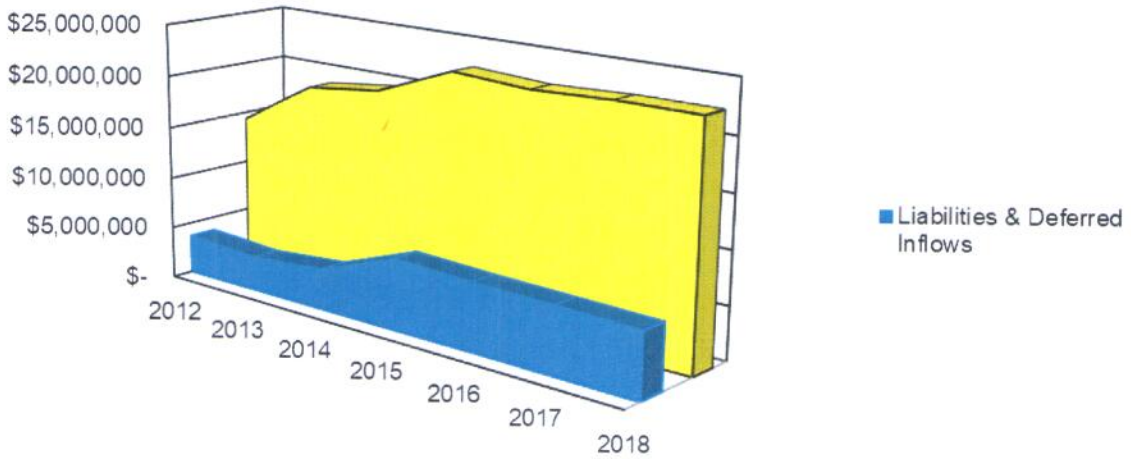
The District is responsible for ensuring that the assets reported are used for their intended purposes. The District's activities have increased greatly with the SIAD project and USDA sewer project. The District currently is applying for USDA funding for the West Patton Village area that was taken over during a consolidation. During the consolidation the District absorbed fire service for West Patton Village. The District's net position was increased during the fiscal years of this audit period.

The following graphs depict the financial information from our financial statements of the District. A discussion and analysis of the graphs of our financial information is as follows:

Statement of Net Position

Analyzing the flow of all of the assets and liabilities of the District over this time period.

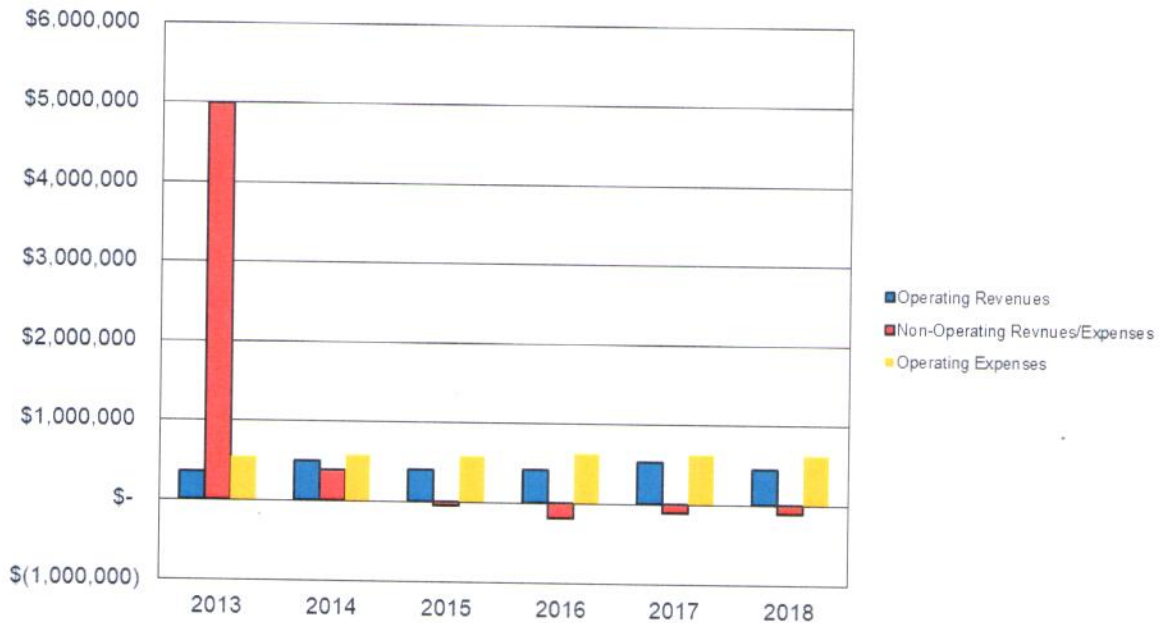
Herlong Public Utility District
Management's Discussion and Analysis
For the Year-Ended December 31, 2018



Statement of Activities

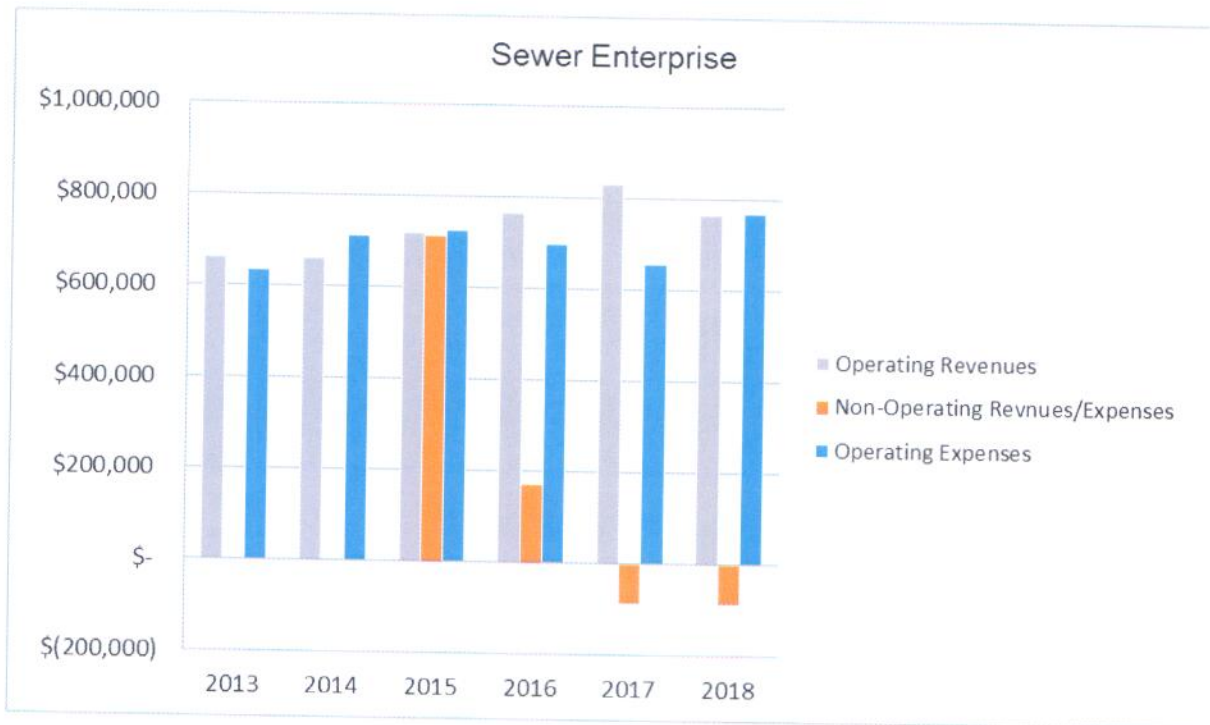
Matching the revenue and the expenses of the District by the fiscal year. In FY 2013 the District received the bulk of the SIAD grant contract. By 2014 the grant was almost completed and therefore non-operating revenues were lower.

Water Enterprise



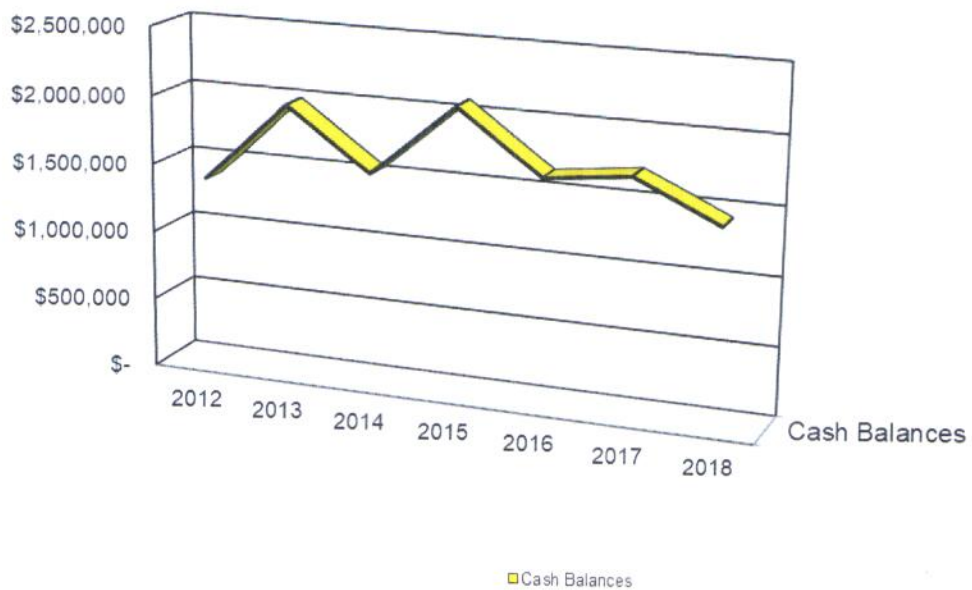
Matching the revenue and the expenses of the District by the fiscal year. In FY 2015 the District received the bulk of the USDA sewer grant/loan. Interest Expense makes up the primary portion of non-operating deficit.

Herlong Public Utility District
Management's Discussion and Analysis
For the Year-Ended December 31, 2018



Statement of Cash Flows

Observing the cash balance at the District's year-end shows the funds available to meet current operating needs, pay current liabilities, and meet the amount of current deferred revenue resulting from grant receipts prior to the grant or project completion.



Herlong Public Utility District
Management's Discussion and Analysis
For the Year-Ended December 31, 2018



The District spent money on CIP for sewer as part of the USDA program.

Notes to the financial statements.

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

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all citizens, taxpayers, customers, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Herlong Public Utility District, PO Box 115, Herlong, California 96113

Herlong Public Utility District

**Statement of Net Position
December 31, 2018**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS & DEFERRED OUTFLOWS</u>			
<u>Current Assets:</u>			
Cash	67,687	1,152,695	\$ 1,220,382
Restricted Investment USDA	-	204,792	204,792
Pre-paid Expenses	2,552	30,067	32,619
Accounts Receivable	11,205	178,539	189,744
Total Current Assets	<u>81,444</u>	<u>1,566,093</u>	<u>1,647,537</u>
<u>Fixed Assets:</u>			
CIP	-	268,407	268,407
Land	-	1,079,880	1,079,880
Buildings and Improvements	-	24,157,438	24,157,438
Equipment	22,000	744,558	766,558
Less: Accumulated Depreciation	(22,000)	(5,562,641)	(5,584,641)
Total Fixed Assets	<u>-</u>	<u>20,687,642</u>	<u>20,687,642</u>
<u>Other Assets:</u>			
Loan Receivable	-	-	-
Total Other Assets	<u>-</u>	<u>-</u>	<u>-</u>
<u>DEFERRED OUTFLOWS</u>			
Deferred outflows	-	185,032	185,032
TOTAL DEFERRED OUTFLOWS	<u>-</u>	<u>185,032</u>	<u>185,032</u>
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>81,444</u>	<u>22,438,767</u>	<u>22,520,211</u>
<u>LIABILITIES & DEFERRED INFLOWS</u>			
<u>Current Liabilities:</u>			
Notes Payable - Current Portion	-	94,000	94,000
Accounts Payable & Accrued Liabilities	197	23,195	23,392
Accrued Vacation	2,069	54,614	56,683
Total Current Liabilities	<u>2,266</u>	<u>171,809</u>	<u>174,075</u>
<u>Long-Term Liabilities:</u>			
Net Pension Liability	-	137,432	137,432
Notes Payable	-	5,750,000	5,750,000
Total Long-Term Liabilities	<u>-</u>	<u>5,887,432</u>	<u>5,887,432</u>
TOTAL LIABILITIES	<u>2,266</u>	<u>6,059,241</u>	<u>6,061,507</u>
DEFERRED INFLOWS	<u>-</u>	<u>2,283</u>	<u>2,283</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>2,266</u>	<u>6,061,524</u>	<u>6,063,790</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	-	14,843,642	14,843,642
Restricted	-	204,792	204,792
Unrestricted	79,178	1,328,809	1,407,987
TOTAL NET POSITION	<u>\$ 79,178</u>	<u>\$ 16,377,243</u>	<u>\$ 16,456,421</u>

The accompanying notes are an integral part of these financial statements.

Herlong Public Utility District
Statement of Activities
For the Year Ended December 31, 2018

	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs						
Primary government						
Governmental Activities						
Fire Service	\$ 54,080	\$ 7,012	\$ -	\$ (47,068)	\$ -	\$ (47,068)
Administration	5,168	-	-	(5,168)	-	(5,168)
Depreciation	-	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-	-
Total governmental activities	<u>59,248</u>	<u>7,012</u>	<u>-</u>	<u>(52,236)</u>	<u>-</u>	<u>(52,236)</u>
Business-type activities						
Water	753,728	448,799	-	-	(304,929)	(304,929)
Wastewater	855,095	767,721	-	-	(87,374)	(87,374)
Lighting	6,920	-	-	-	(6,920)	(6,920)
Total business-type activities	<u>1,615,743</u>	<u>1,216,520</u>	<u>-</u>	<u>(52,236)</u>	<u>(399,223)</u>	<u>(399,223)</u>
Total primary government	<u>1,674,991</u>	<u>1,223,532</u>	<u>-</u>	<u>(52,236)</u>	<u>(399,223)</u>	<u>(451,459)</u>
General revenues:						
Taxes:						
Property taxes, levied for general purposes				\$ 84,214	\$ 136	\$ 84,350
Unrestricted investment earnings				-	11,463	11,463
Miscellaneous				-	-	-
Total general revenues, special items				<u>84,214</u>	<u>11,599</u>	<u>95,813</u>
Change in net position				31,978	(387,624)	(355,646)
Net Position - beginning				47,200	16,764,867	16,812,067
Net Position - ending				<u>\$ 79,178</u>	<u>\$ 16,377,243</u>	<u>\$ 16,456,421</u>

The accompanying notes are an integral part of these financial statements.

Herlong Public Utility District

**Statement of Net Position - Proprietary Funds
December 31, 2018**

	<u>Water</u>	<u>Sewer</u>	<u>Lighting</u>	<u>Total</u>
<u>ASSETS & DEFERRED OUTFLOWS</u>				
<u>Current Assets:</u>				
Cash	\$ 863,488	\$ 296,198	\$ (6,992)	\$ 1,159,686
Restricted Investment USDA	165,600	39,193	-	204,793
Pre-paid Expenses	6,879	23,188	-	30,067
Accounts Receivable	99,297	79,241	-	178,538
Total Current Assets	1,135,264	437,820	(6,992)	1,573,084
<u>Fixed Assets:</u>				
CIP	-	-	-	-
Land	737,899	341,981	-	1,079,880
Buildings and Improvements	13,407,295	10,750,144	-	24,157,439
Equipment	567,222	177,335	-	744,557
Less: Accumulated Depreciation	(3,246,870)	(2,315,771)	-	(5,562,641)
Total Fixed Assets	11,465,546	8,953,689	-	20,419,235
<u>Other Assets:</u>				
Loan Receivable	-	-	-	-
Total Other Assets	-	-	-	-
<u>DEFERRED OUTFLOWS</u>				
Deferred outflows	46,258	138,774	-	185,032
TOTAL DEFERRED OUTFLOWS	46,258	138,774	-	185,032
TOTAL ASSETS & DEFERRED OUTFLOWS	12,647,068	9,530,283	(6,992)	22,177,351
<u>LIABILITIES & DEFERRED INFLOWS</u>				
<u>Current Liabilities:</u>				
Notes Payable - Current Portion	49,000	45,000	-	94,000
Accounts Payable & Accrued Liabilities	10,747	12,448	-	23,195
Accrued Vacation	14,171	40,443	-	54,614
Total Current Liabilities	73,918	97,891	-	171,809
<u>Long-Term Liabilities:</u>				
Net Pension Liability	16,595	22,466	-	39,061
Loan Payable - Water Fund	34,358	103,073	-	137,431
Notes Payable	-	-	-	-
Notes Payable	2,728,000	3,022,000	-	5,750,000
Total Long-Term Liabilities	2,762,358	3,125,073	-	5,887,431
TOTAL LIABILITIES	2,836,276	3,222,964	-	6,059,240

The accompanying notes are an integral part of these financial statements.

Herlong Public Utility District

**Statement of Revenues, Expenses & Change in Net Position
For the Year Ended
December 31, 2018**

	Proprietary Funds Statements			Total
	Water	Waste Water	Lighting	Memorandum Only
<u>OPERATING REVENUES</u>				
Charges for Services	\$ 448,799	\$ 767,721	\$ -	\$ 1,216,520
Total Operating Revenues	448,799	767,721	-	1,216,520
<u>OPERATING EXPENSES</u>				
Water Treatment, Transmission & Distribution	310,129	-	-	310,129
Sewer Treatment & Disposal	-	531,202	-	531,202
Lighting Service	-	-	6,920	6,920
Administrative	34,463	73,738	-	108,201
Depreciation	290,200	165,000	-	455,200
TOTAL OPERATING EXPENSES	634,792	769,940	6,920	1,411,652
<u>NON-OPERATING REVENUES/EXPENSES</u>				
Interest Expense	(118,936)	(85,155)	-	(204,091)
Interest Income	11,013	450	-	11,463
Capital Grants	-	-	-	-
Taxes and Intergovernmental	-	-	136	136
Total Non-Operating Revenues/Expenses	(107,923)	(84,705)	136	(192,492)
<u>NET CHANGE IN NET POSITION</u>	(293,916)	(86,924)	(6,784)	(387,624)
<u>NET POSITION, BEGINNING OF YEAR</u>	10,169,946	6,595,129	(208)	16,764,867
<u>NET POSITION, END OF YEAR</u>	\$ 9,876,030	\$ 6,508,205	\$ (6,992)	\$ 16,377,243

The accompanying notes are an integral part of these financial statements.

Herlong Public Utility District
Statement of Cash Flows
For the Year-Ended
December 31, 2018

	Water	Enterprise Funds Sewer	Lighting	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash Received from Charges for Service	\$ 423,113	\$ 711,078	\$ -	\$ 1,134,191
Deduct: Cash paid for Operating Expenses	(340,363)	(574,222)	(6,919)	(914,585)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>82,750</u>	<u>136,856</u>	<u>(6,919)</u>	<u>219,606</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Tax Assessment	-	-	-	-
Interest Expense	(118,936)	(85,155)	-	(204,091)
Payment on Principle on Notes Payable	(43,000)	(48,000)	-	(91,000)
Loan to WW	43,449	(43,449)	-	-
Purchase of Capital Assets	(91,461)	(162,761)	-	(254,222)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(209,948)</u>	<u>(339,365)</u>	<u>-</u>	<u>(549,313)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Property Tax Receipts	-	-	136	-
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>136</u>	<u>-</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Purchase Investment CD's	(685)	(167)	-	(852)
Interest Receipts	11,013	450	-	11,463
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>10,328</u>	<u>283</u>	<u>-</u>	<u>10,611</u>
NET INCREASE (DECREASE) IN CASH	<u>(116,870)</u>	<u>(202,226)</u>	<u>(6,783)</u>	<u>(319,096)</u>
<u>CASH, BEGINNING OF YEAR</u>	<u>980,358</u>	<u>498,424</u>	<u>(209)</u>	<u>1,478,782</u>
<u>CASH, END OF YEAR</u>	<u>\$ 863,488</u>	<u>\$ 296,198</u>	<u>\$ (6,992)</u>	<u>\$ 1,159,686</u>

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

Herlong Public Utility District

**Balance Sheet
December 31, 2018**

<u>ASSETS & DEFERRED OUTFLOWS</u>	<u>Fire</u>
<u>Current Assets:</u>	
Cash	\$ 67,686
Accounts Receivable	11,205
Total Current Assets	<u>78,891</u>
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>78,891</u>
 <u>LIABILITIES & DEFERRED INFLOWS</u>	
<u>Current Liabilities:</u>	
Accounts Payable & Accrued Liabilities	197
Accrued Vacation	-
Total Current Liabilities	<u>197</u>
TOTAL LIABILITIES	<u>197</u>
 <u>Fund Balance</u>	
Restricted	-
Unrestricted	78,694
<u>TOTAL FUND BALANCE</u>	<u>\$ 78,694</u>

The accompanying notes are an integral part of these financial statements.

Herlong Public Utility District

**Statement of Revenues, Expenditures & Change in Fund Balance
For the Year Ended
December 31, 2018**

<u>Expenditures</u>	Fire
Salaries, Services, & Supplies	\$ 58,260
Total Operating Revenues	<u>58,260</u>
<u>Revenues</u>	
Chargers for Service	7,012
Taxes and Intergovernmental	<u>84,214</u>
TOTAL OPERATING EXPENSES	<u>91,226</u>
<u>NET CHANGE IN FUND BALANCE</u>	<u>32,966</u>
<u>FUND BALANCE, BEGINNING OF YEAR</u>	<u>45,728</u>
<u>NET POSITION, END OF YEAR</u>	<u><u>\$ 78,694</u></u>

The accompanying notes are an integral part of these financial statements.

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Herlong Public Utility District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Description of the Reporting Entity

The District was established in 2/14/2008, under the California State Government Code. The District currently provides water and sewer services throughout the Herlong and West Patton Village after the annexation of the WPV CSD.

The District is a governed entity administered by a Board of Directors (Board) that acts as the authoritative and legislative body of the entity. The Board is comprised of five board members who are elected by voters living within the District's boundaries. Elections are held within the Board to appoint the President. The President's responsibilities are to preside at all meetings of the Board; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission, or business organization; and exercise supervision over the business of the District, its officers, and its employees.

The accompanying general-purpose financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

B. Basis of Accounting/Measurement Focus

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, revenues, expenses, as appropriate. 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.

C. Government-Wide Financial Statements

The District Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net

Herlong Public Utility District
Notes to Financial Statements
December 31, 2018

Position. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as operating revenues for the District are reported as charges for services.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities demonstrating the degree to which the direct expenses of a given project are offset by project revenues. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function or segment. Operating revenues include (1) charges paid by the recipients of services offered by the program 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 taxes are presented instead as non-operating revenues.

Enterprise Funds – The enterprises funds are used to account for all the financial resources of the District. The enterprise net assets is available to the District for any purpose, provided it is expended or transferred according to the general laws of California and the bylaws of the District. The District maintains separate funds for Water, and Sewer.

Exchange and Non-Exchange Transactions of Revenues – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the District receives value without directly giving value in return, include taxes and donations. Revenues are recognized when susceptible to accrual, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

Expenses - On an accrual basis of accounting, expenses are recognized at the time they are incurred.

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

E. Funds on Deposit, County and Bank

The District is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. cash balances held in banks and revolving funds are insured to \$250,000 by the FDIC. The remaining balance is fully insured and collateralized.
\$162,695 of the cash balances are restricted for future USDA debt repayments.

Interest rate risk. - The District policy is to find highest investment return with maximum security that meets daily cash flow demands.

Credit risk. - The District policy is to use only US treasury bills, registered state warrants or notes or bonds issued by the state of California, bonds notes warrants issued by a local agency within California, obligations issued by the Federal government, prime commercial paper from corporations with assets greater than 500 million with the highest ranking by Moody's or S&P not to exceed 15% for up to 180 days and up to 30% if the average maturity does not exceed 31 days, Bankers acceptance with a term not exceed 270 days up to 40% with not more than 30% in a single commercial bank, 30% of funds in certificates of deposit, repurchase/reverse purchase agreements given that agreement shall be no less than 102% of market value, medium term notes not to exceed 5 years of us corporations rate "A" or better by Mood's or S&P with no more than 30%, shares of beneficial interested issued by a diversified management company up to 15%, mortgage pass through security that are rated "AA" or better up to 30% and bonds issued by the Herlong Public Utility District, collateralized bank deposits, funds held under the terms of a trust indenture or other contract agreement, or any other investment authorized by Government Code. The District is prohibited from investing in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investments that may result in a zero interest accrual if held to maturity.

Custodial credit risk. - The District is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. cash balances held in banks and revolving funds are insured to \$250,000 by the FDIC. The remaining balance is fully insured and collateralized.

Concentration of credit risk. - The District policy is to follow prudent diversification strategies.

F. Accounts Receivable

Accounts receivable are recorded at their gross value, where appropriate are reduced by the portion that is considered uncollectable. Accounts receivable consists primarily of service fees that have been billed but not paid as of year-end. Management believes its receivables to be fully collectable due to the ability to place a lien against property for unpaid receivables and, accordingly no allowance for doubtful accounts is necessary.

G. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid items.

Herlong Public Utility District
Notes to Financial Statements
December 31, 2018

H. Fixed Assets

Capital assets, which include property, plant, and equipment, infrastructure assets and intangible are reported in the applicable governmental -type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Donated or contributed capital assets are recorded at their estimated fair value on the date received. The current capitalization threshold is \$5,000 for an individual item.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

I. Accounts Payable

On an accrual basis, expenses are recognized in the fiscal year in which the goods or services are received. Payables are liabilities of the District based upon current year charges for goods or services received but not paid in the current year.

J. Accrued Expenses

Any accumulated vacation leave is paid-out to employees at their most recent rate of pay upon termination. The District records a liability for compensated absences based upon total accumulated vacation and comp leave hours.

K. Net Position

The District's net position represents the difference between its assets and liabilities in the statement of net position. Net position is reported as restricted when there are legal limitations imposed on their use by their source.

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. Long-Term Debt

All long-term liabilities to be repaid from the governmental resources are reported as liabilities in the government-wide statements.

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

USDA Loan/Grant, 4.25% payable in semiannual installments for 40 years to the water fund
One year's payment in reserves with the first 10 years
Total Loan December 2009 \$3,075,000.00

Year End December 31,	Principle	Interest
2019	45,000	117,066
2020-2023	200,000	447,865
2024-2028	301,000	507,131
2029-2033	370,000	436,050
2034-2038	456,000	348,628
2039-2043	561,000	240,996
2044-2048	691,000	108,396
2049	<u>153,000</u>	<u>3,251</u>
Totals	<u>\$2,777,000</u>	<u>\$2,209,383</u>

USDA Loan/Grant, 2.75% payable in semiannual installments for 40 years to the waste water fund
One year's payment in reserves with the first 10 years
Total Loan December 2015 \$3,206,000.00

Year End December 31,	Principle	Interest
2019	49000	83,000
2020-2023	260000	385,000
2024-2028	305000	345,000
2029-2033	350000	299,000
2034-2038	400000	250,000
2039-2043	450000	185,000
2044-2048	520000	115,000
2049-2054	625000	30000
2055	108000	2,000
Totals	<u>\$3,102,000</u>	<u>\$2,245,919</u>

NOTE 2: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2018, the District contracted with SDRMA for liability, property, crime damage, and employee and director insurances.

NOTE 3: DEFINED BENEFIT PENSION PLAN

Plan Description - The Herlong Public Utility District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

plan members and beneficiaries. The Herlong Public Utility District's defined benefit pension plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by the State statutes within the Public Employees' Retirement Law. The Herlong Public Utility District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts the benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Summary of Significant Accounting Policies

For Purposes of Measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this Purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used.

Validation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

General Information about the Pension Plan

Plan Description, Benefits Provided and Employees Covered

The Plan is a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2013 actuarial valuation report. This report is a publicly available valuation report that can be obtained at CalPERS' website under Forms and Publications.

Contribution Description

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For Public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by the employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2016 (the measurement date). Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

The total pension liability was determined by rolling forward the total pension liability determined in the June 30, 2016, actuarial accounting valuation to June 30, 2017. The June 30, 2017, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

Other significant actuarial assumptions used in the June 30, 2016, valuations were based on the results of the actuarial experience study for the period from 1997 to 2011.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

necessary. The long term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report call the "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10^(a)	Real Return Years 11+^(b)
Global Equity	47.0%	4.9%	5.38%
Global Fixed Income	19.0	0.8	2.27
Inflation Sensitive	6.0	0.6	1.39
Private Equity	12.0	6.6	6.63
Real Estate	11.0	2.8	5.21
Infrastructure and Forestland	3.0	3.9	5.36
Liquidity	2.0	(0.4)	(0.9)

^(a) An expected inflation of 2.5% used for this period.

^(b) An expected inflation of 3.0% used for this period.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in your GASB 68 accounting valuation report may differ from the plan assets reported in your funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early CAFR closing and final reconciled reserves.

Allocation of Net Pension Liability and Pension Expense to Individual Plans

A key aspect of GASB 68 pertaining to cost-sharing employers is the establishment of an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Paragraph 49 of GASB 68 indicates that for pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relationships through the plans they sponsor within the risk pool. Plan liability and asset-related information are used where available, and proportional allocations if individual plan amounts as of the valuation date are used where not available.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
--	-----------------------------------

All other amounts

Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of participants (active, inactive and retired) in PERF C. The EARSL for the 2013-14 measurement period is 3.8 years, which was obtained by dividing total service years 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Note that inactive employees are retirees have remaining service lifetimes equal to 0. Also,

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Ending Balances - Net Pension Liability & Deferred Outflows/Deferred Inflows of Resources Related to Pensions - 6/30/2018 Reporting Date:		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	19,633	-
Differences between Expected and Actual Experience	-	2,283
Differences between Projected and Actual Investment Earnings	4,807	-
Differences between Employer's Contributions and Proportionate Share of Contributions	59,299	-
Change in Employer's Proportion	23,211	-
Pension Contributions Made Subsequent to Measurement Date	78,083	-
	185,032	2,283
Net Pension Liability as of 6/30/2018	137,432	

Amounts reported as deferred outflows and deferred inflows of resources related to pensions, other than the employer-specific item, will be recognized in future pension expense.

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

Pension Expense as of June 30, 2018 76,659			
At 6/30/2018, proportionate shares of Net Pension Liability/(Asset) by plan(s):			
	Proportionate Share of Net Pension Liability/(Asset)		
Miscellaneous	137,432		
Safety	-		
Total	137,432		
Proportionate share of the Net Pension Liability/(Asset) for the Plan as of 6/30/2017 and 6/30/2018:			
	Miscellaneous	Safety	Total
Proportion - June 30, 2017	0.00356%	0.00000%	0.00143%
Proportion - June 30, 2018	0.00349%	0.00000%	0.00139%
Change - Increase/(Decrease)	-0.00008%	0.00000%	-0.00005%
Note: Due to the nature of calculating proportionate share of the Net Pension Liability/(asset), total proportion for all employer plans will not equal the sum of the miscellaneous proportion % and the safety proportion %			
Other deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:			
Fiscal Year Ending June 30:	Miscellaneous	Safety	Total
2019	\$ 53,447	\$ -	\$ 53,447
2020	31,650	-	31,650
2021	22,424	-	22,424
2022	(2,854)	-	(2,854)
2023	-	-	-
Thereafter	-	-	-
	104,666	-	\$ 104,666
Sensitivity of the Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate:			
	Discount Rate -1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
Employer's Net Pension Liability/(Asset) - Miscellaneous	207,488	137,432	79,410
Employer's Net Pension Liability/(Asset) - Safety	-	-	-
Employer's Net Pension Liability/(Asset) - Total	207,488	137,432	79,410

NOTE 4: USE OF RESTRICTED/UNRESTRICTED NET POSITION

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

NOTE 5: COMPARATIVE DATA AND RECLASSIFICATIONS

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

**Herlong Public Utility District
Notes to Financial Statements
December 31, 2018**

NOTE 6: JOINT POWERS INSURANCE AUTHORITY

The District participates in a joint venture under a joint agreement (JPA) with the Special District Risk Management Authority (SDRMA). The relationship between the District and the JPA is such that is not a component unit of the District and the JPA is not a component unit of the District for financial reporting purposes.

The JPA'S purpose is to jointly fund and develop programs to provide comprehensive and economical funding of property, workers compensation and employers liability coverage's for bodily injury by accident or by disease, including resulting from death, arising out of and in the course of an employee's employment with the District. This program is provided through collective self-insurance; the purchase of insurance benefit's; or a combination thereof.

NOTE 7: CONTIGENCIES

As of December 31, 2018, the District did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 8: ECONOMIC DEPENDENCY

The majority of the water and wastewater revenue is from the District's main customer, the Federal Bureau of Prisons. The District supplies water and wastewater services to the prison facility located in Herlong, CA which represents approximately 88% of its total utility sales revenue.

NOTE 9: DATE OF MANAGEMENT'S REVIEW

Subsequent events have been evaluated through , which is the date the financial statements were available to be issued.

Herlong Public Utility District

Supplemental Information

December 31, 2018

Herlong Public Utility District

**Statement of Revenues, Expenditures & Change in Fund Balance
For the Year Ended
December 31, 2018**

<u>Expenditures</u>	Fire		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries, Services, & Supplies	<u>\$ 84,935</u>	<u>\$ 58,260</u>	<u>\$ 26,675</u>
Total Operating Revenues	<u>84,935</u>	<u>58,260</u>	<u>26,675</u>
<u>Revenues</u>			
Chargers for Service	300	7,012	6,712
Taxes and Intergovernmental	<u>84,635</u>	<u>84,214</u>	<u>(421)</u>
TOTAL OPERATING EXPENSES	<u>84,935</u>	<u>91,226</u>	<u>6,291</u>
<u>NET CHANGE IN FUND BALANCE</u>		<u>32,966</u>	
<u>FUND BALANCE, BEGINNING OF YEAR</u>		<u>45,728</u>	
<u>NET POSITION, END OF YEAR</u>		<u>\$ 78,694</u>	

The accompanying notes are an integral part of these financial statements.

Herlong Public Utility District

**Statement of Activities
Budget vs Actual
For the Year Ended
December 31, 2018**

	Water		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 553,200	\$ 448,799	\$ (104,401)
Total Operating Revenues	<u>553,200</u>	<u>448,799</u>	<u>(104,401)</u>
<u>OPERATING EXPENSES</u>			
Water Treatment, Transmission & Distribution	438,938	310,129	128,809
Sewer Treatment & Disposal	-	-	-
Administrative	78,346	34,463	43,883
Depreciation	31,191	290,200	(3,272)
TOTAL OPERATING EXPENSES	<u>548,475</u>	<u>634,792</u>	<u>(86,317)</u>
<u>NON-OPERATING REVENUES/EXPENSES</u>			
Interest Expense	(136,400)	(118,936)	(17,464)
Interest Income	4,015	11,013	6,998
Capital Grants	-	-	-
Taxes and Intergovernmental	-	-	-
Total Non-Operating Revenues/Expenses	<u>(132,385)</u>	<u>(107,923)</u>	<u>(10,466)</u>
<u>NET CHANGE IN NET POSITION</u>		<u>(293,916)</u>	
<u>NET POSITION, BEGINNING OF YEAR</u>		<u>10,169,946</u>	
<u>NET POSITION, END OF YEAR</u>		<u>\$ 9,876,030</u>	

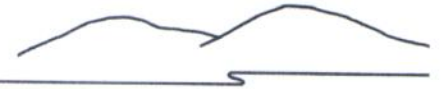
The accompanying notes are an integral part of these financial statements.

Herlong Public Utility District

**Statement of Activities
Budget vs Actual
For the Year Ended
December 31, 2018**

	Waste Water		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 839,800	\$ 767,721	\$ 72,079
Total Operating Revenues	<u>839,800</u>	<u>767,721</u>	<u>72,079</u>
<u>OPERATING EXPENSES</u>			
Water Treatment, Transmission & Distribution	-	-	
Sewer Treatment & Disposal	649,210	531,202	118,008
Administrative	130,738	73,738	57,000
Depreciation	21,348	165,000	(143,652)
TOTAL OPERATING EXPENSES	<u>801,296</u>	<u>769,940</u>	<u>31,356</u>
<u>NON-OPERATING REVENUES/EXPENSES</u>			
Interest Expense	(87,000)	(85,155)	(1,845)
Interest Income	700	450	(250)
Capital Grants	-	-	-
Capital Expenditures	-	-	-
Taxes and Intergovernmental	-	-	-
Total Non-Operating Revenues/Expenses	<u>(86,300)</u>	<u>(84,705)</u>	<u>(2,095)</u>
<u>NET CHANGE IN NET POSITION</u>		<u>(86,924)</u>	
<u>NET POSITION, BEGINNING OF YEAR</u>		<u>6,595,129</u>	
<u>NET POSITION, END OF YEAR</u>		<u>\$ 6,508,205</u>	

The accompanying notes are an integral part of these financial statements.



Board of Directors
Herlong Public Utility District

Herlong, CA

**INDEPENDENT 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**

We have audited the financial statements of Herlong Public Utility District as of and for the year ended December 31, 2018, and have issued our report thereon dated . We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

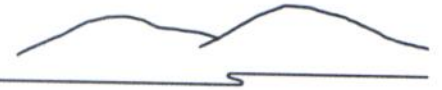
Internal Control Over Financial Reporting

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

Our consideration of the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 controls such 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. We considered the deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items 2018-1 and 2018-2 to be material weaknesses.

A significant deficiency in internal control 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.



**INDEPENDENT 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**

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Herlong Public Utility District's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Zach Pehling, CPA, MBA

HERLONG PUBLIC UTILITY DISTRICT

**Combined Schedule of Findings and Questioned Costs
December 31, 2018**

Financial Statement Findings -Yellow Book Section: Material Weakness

Finding 2018-1 Lack of Segregation of Duties

Criteria Upon Which Audit Finding is Based(Legal Citation)

Yellow Book paragraphs 5.10 - 5.14 and Appendix I, SAS No. 109

Finding (Condition)

An inadequate segregation of duties exists.

Amount of Questioned Cost, How Computed and Prevalence

None noted

Effect

The District has exposure to risk of financial statement misstatement and the potential risk of errors or fraud.

Cause

Due to the District only having a few personnel assigned to duties that involve access to the general ledger and other accounting records and who also have custody of and responsibility for handling cash and other assets, an inadequate segregation of duties exists.

Recommendation

We recommend that the District employees and Board examine all activities of the District carefully to help decrease the risks of any individual being in a position to both perpetrate and conceal errors or fraud.

District's Response

Due to the number of employees of the District, it is not possible for the District to cost effectively mitigate this finding. The District cannot, with its current budget, hire an adequate number of employees to insure that custody of assets and accountability for assets is separated.

The District does, however believe that being aware of this weakness will insure that existing employees and Board members will maintain diligence to potential risks of not having an adequate segregation of duties.

Finding 2018-2 Financial Statement Preparation

Criteria Upon Which Audit Finding is Based(Legal Citation)

In accordance with Statement on Auditing Standards No. 122 (SAS 122), the District is responsible for preparing complete and accurate financial statement, management discussion and analysis, and footnote disclosures in accordance with Generally Accepted Accounting Principles (GAAP).

HERLONG PUBLIC UTILITY DISTRICT

**Combined Schedule of Findings and Questioned Costs
December 31, 2018**

Finding (Condition)

Similar to many other small California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, management discussion and analysis, and footnote disclosures are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Amount of Questioned Cost, How Computed and Prevalence

None noted

Effect

There is a risk that a material financial statement misstatement may exist and not be prevented or detected by the District's system of internal control.

Cause

This condition has always existed at the District, and is being reported in accordance with SAS 122.

Recommendation

The District should consider the cost benefit of hiring an accountant familiar with GAAP or hiring and independent CPA firm to compile financial statements in conformity with GAAP.

District's Response

The District had determined that the costs of correcting this control weakness outweigh the benefits to be received. The District will continue to rely on the independent auditor to prepare its annual financial statements.

Internal Control - Significant Deficiencies that are not Material Weaknesses

None noted

Material Non-Compliance with Laws and Regulations

None noted

Non-Material Non-Compliance with Laws and Regulations

None noted

HERLONG PUBLIC UTILITY DISTRICT

**Summary Schedule of Prior Year Audit Findings
December 31, 2018**

Finding 2018-1 Lack of Segregation of Duties

Due to the number of employees an inadequate segregation of duties exists.

Status

Ongoing. See Current year finding 2018-1

Finding 2017-2 Financial Statement Preparation

Similar to many other small California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, management discussion and analysis, and footnote disclosures are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Status

Ongoing. See current year finding 2018-2.

HERLONG PUBLIC UTILITY DISTRICT

Corrective Action Plan December 31, 2018

Person Monitoring Corrective Action Plan

Frank Motzkus, General Manager

Finding 2018-1 Lack of Segregation of Duties

Finding (Condition)

An inadequate segregation of duties exists.

Corrective Action Planned

Due to the number of employees of the District it is not possible for the District to cost effectively mitigate this finding. The District cannot, with its current budget, hire an adequate number of employees to insure that custody of assets and accountability for assets is separated.

The District does, however, believe that being aware of this weakness will insure that existing employees and Board members will maintain diligence to potential risks of not having an adequate segregation of duties.

Expected Completion Date

Ongoing.

Finding 2018-2 Financial Statement Preparation

Finding (Condition)

Similar to many other small California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, management discussion and analysis, and footnote disclosures are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Corrective Action Planned

The District had determined that the costs of correcting this control weakness outweigh the benefits to be received. The District will continue to rely on the independent auditor to prepare its annual financial statements.

Expected Completion Date

Ongoing.