

Herlong Public Utility District

FINANCIAL STATEMENTS

AUDIT REPORT

December 31, 2014

April 23, 2015

Herlong Public Utility District
PO Box 515
Herlong, CA 96113

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Herlong Public Utility District as of and for the years ended December 31, 2014, as listed in the Table of Contents. These financial statements are the responsibility of Herlong Public Utility District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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, 2014, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Herlong Public Utility District's basic financial statements. The accompanying financial information listed as schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Herlong Public Utility District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, basic financial statements of Herlong Public Utility District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2015, 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.

Pehling & Pehling, CPA's

Herlong Public Utility District

**Audit Report
December 31, 2014**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	4
Financial Statements	
Statement of Net Position.....	9
Statement of Activities/Statement of Revenues, Expenses, and Changes in Net Position.....	10
Statement of Net Cash Flows.....	11
Notes to Financial Statements.....	11
Supplemental Information	
Schedule of Expenditures of Federal Awards.....	21
Schedule of Revenues, Expenses, and Changes in Net Position Budget vs. Actual.....	22
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	26
Schedule of Findings and Questioned Costs.....	28

Herlong Public Utility District
Management's Discussion and Analysis
For the Year-Ended December 31, 2014

Our discussion and analysis of the financial activities for the fiscal year-ended December 31, 2014. 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 on resource conservation.

- Total Net Position was \$15,779,828
- Overall Revenues were \$ 1,654,551
- Overall Expenses were \$ 1,387,177
- Federal Funding for utility privatization project was \$508,245
- The District Invested in Capital Assets during the current year. Capital Expenditures totaled \$1,169,656.

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.

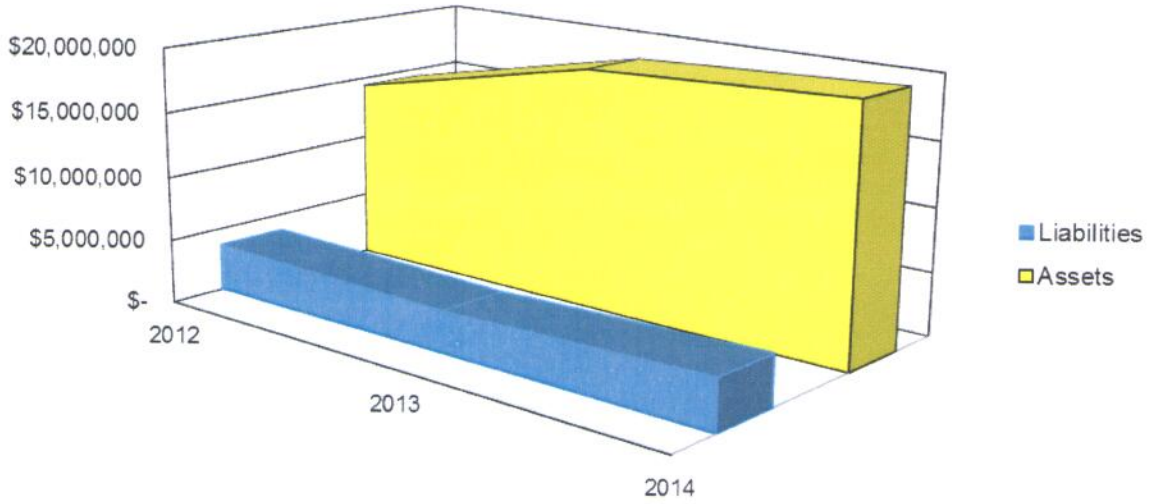
The District is responsible for ensuring that the assets reported are used for their intended purposes. The District's activities have increased greatly with the SIAD project and future USDA sewer project anticipated in the future. The District's net position was increased during the fiscal years of 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

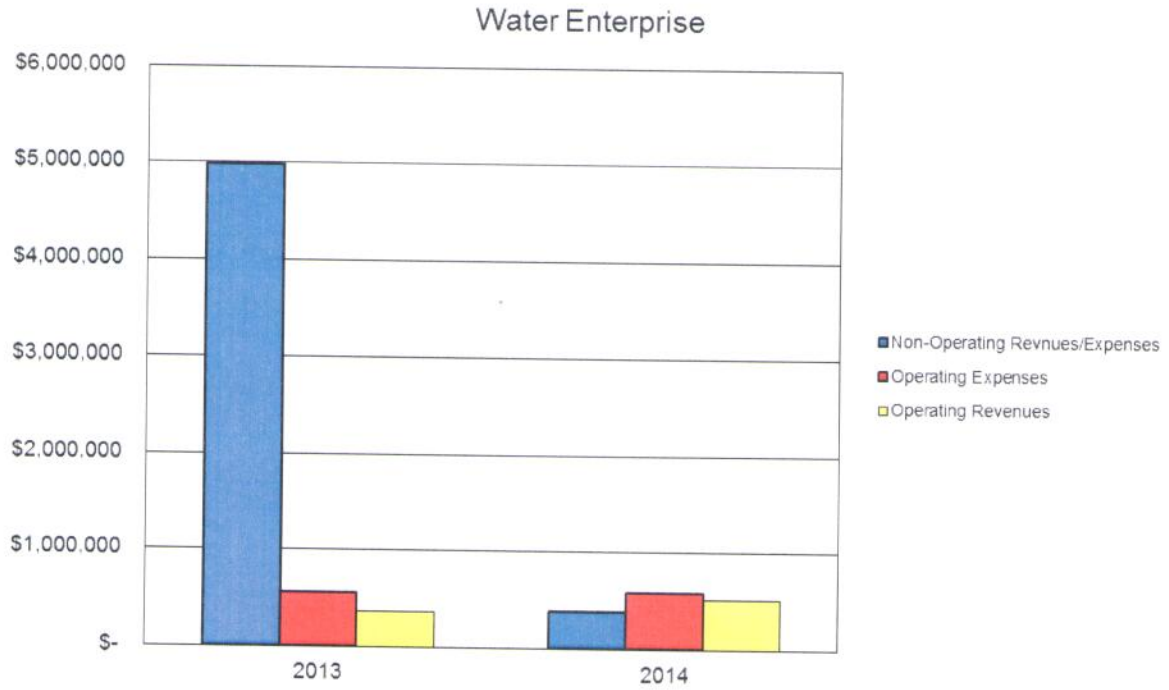
Analyzing the flow of all of the assets and liabilities of the District over this time period.

**Herlong Public Utility District
Management's Discussion and Analysis
For the Year-Ended December 31, 2014**

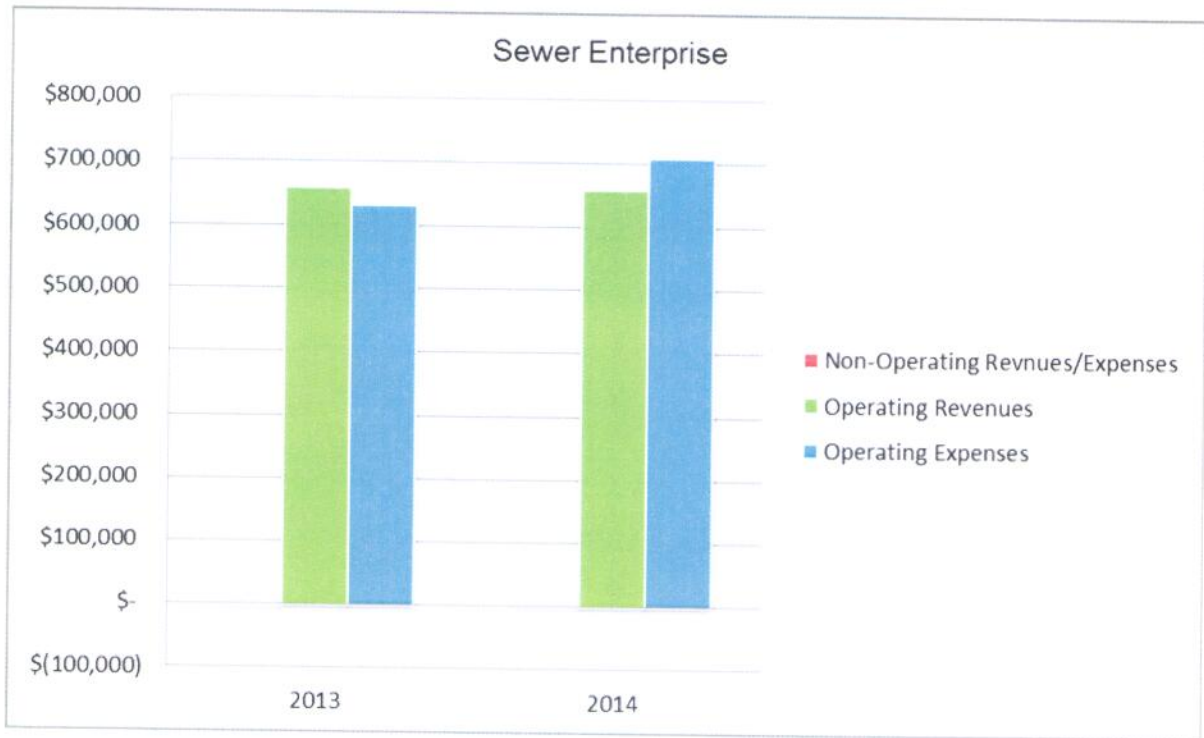


Statement of Activities

Matching the revenue and the expenses of the District by the fiscal year.

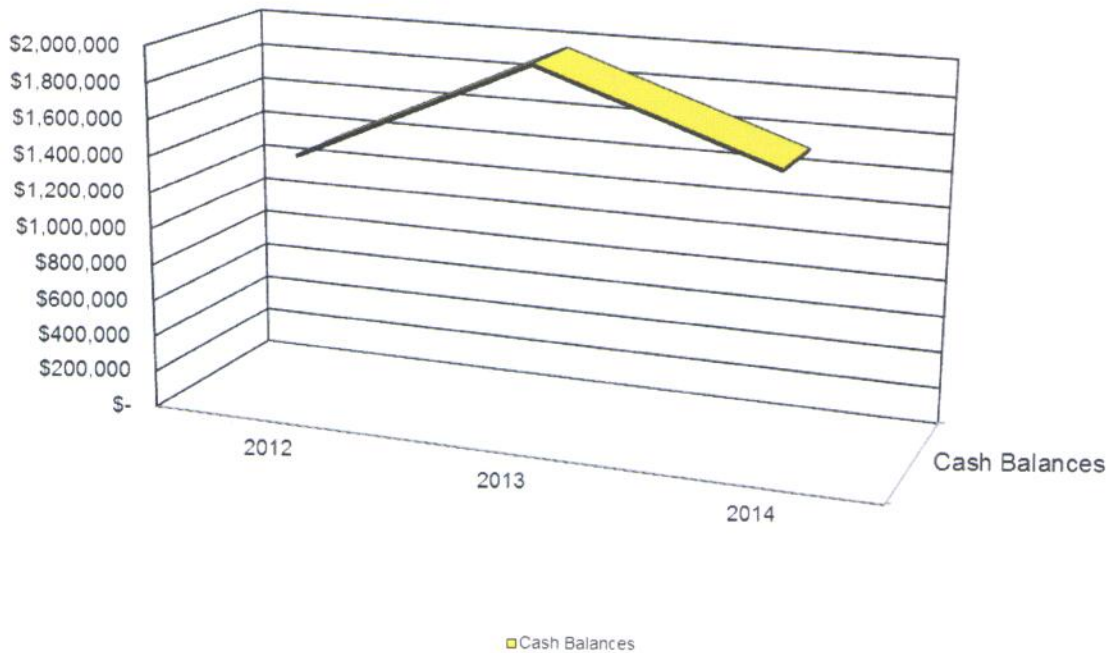


**Herlong Public Utility District
Management's Discussion and Analysis
For the Year-Ended December 31, 2014**

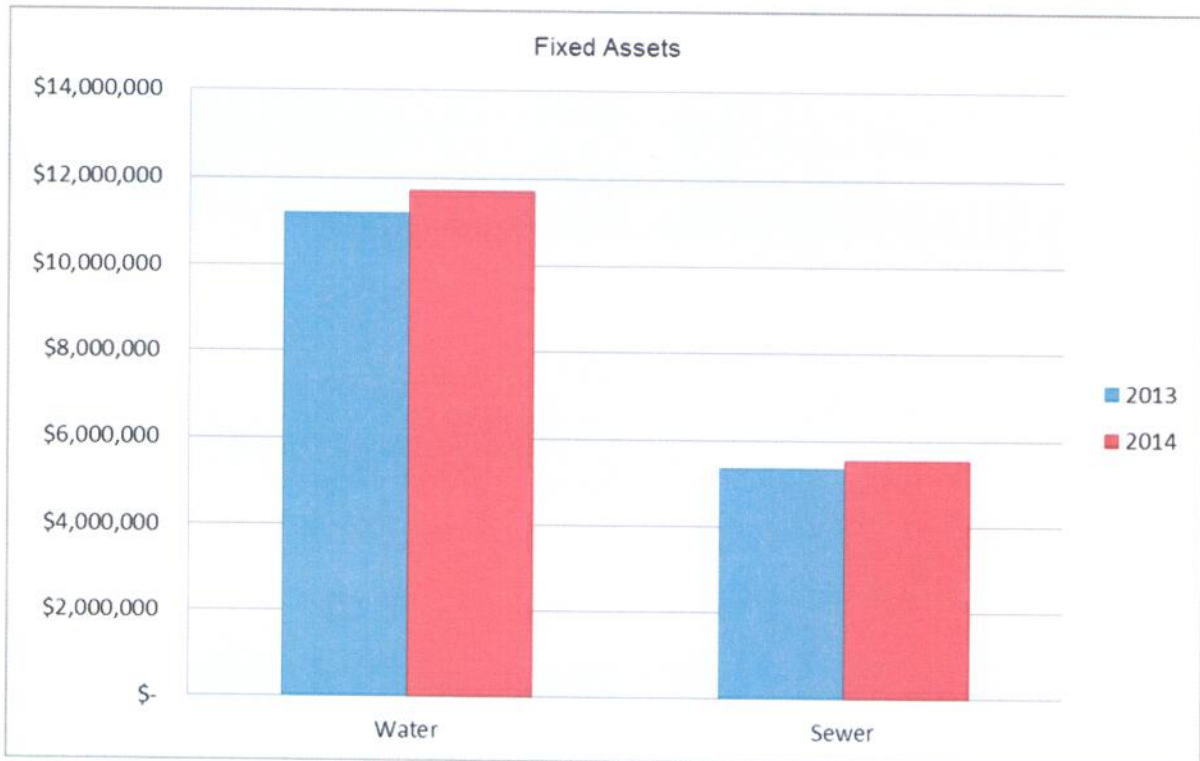


Statement of Cash Flows

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, 2014**



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 515, Suite D Herlong, California 96113

Herlong Public Utility District

**Statement of Net Position
December 31, 2014**

	Proprietary Fund Statements		Adjustments from Proprietary to Government-Wide Financial Statements	Government- Wide Financial Statements
	Water	Sewer		
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash	\$ 475,459	\$ 913,591		\$ 1,389,050
Restricted Cash USDA	152,809	-		152,809
Pre-paid Expenses	3,861	20,097		23,958
Accounts Receivable	411,469	462		411,931
Total Current Assets	1,043,597	934,151		1,977,748
<u>Fixed Assets:</u>				
CIP	5,734,903	786,186		6,521,089
Land	212,043	341,981		554,024
Buildings and Improvements	7,183,346	5,824,043		13,007,389
Equipment	555,222	177,336		732,558
Less: Accumulated Depreciation	(1,974,839)	(1,588,379)		(3,563,218)
Total Fixed Assets	11,710,675	5,541,166		17,251,841
<u>Other Assets:</u>				
Loan Receivable	414,823	-	(414,823)	-
Total Other Assets	414,823	-		-
TOTAL ASSETS	13,169,095	6,475,317		19,644,412
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Notes Payable - Current Portion	38,000	414,823	(414,823)	867,646
Accounts Payable	28,392	32,369		60,761
FBOP Trust Reimbursement	112,500	337,500		450,000
Total Current Liabilities	178,892	784,692		963,584
<u>Long-Term Liabilities:</u>				
Notes Payable	2,901,000	0		2,901,000
Total Long-Term Liabilities	2,901,000	0		2,901,000
TOTAL LIABILITIES	3,079,892	784,693		3,864,584
<u>NET POSITION</u>				
Net Investment in Capital Assets	8,771,675	5,126,343		13,898,018
Restricted	152,809	-		152,809
Unrestricted	1,164,719	564,282		1,729,002
TOTAL NET POSITION	\$ 10,089,203	\$ 5,690,625		\$ 15,779,828

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

Herlong Public Utility District

**Statement of Activities
For the Year Ended
December 31, 2014**

	Proprietary Fund Statements		Adjustments from Proprietary to Government-Wide Financial Statements	Government- Wide Financial Statements
	Water	Sewer		
<u>OPERATING REVENUES</u>				
Charges for Services	\$ 508,618	\$ 660,000	(25,927)	\$ 1,142,691
Total Operating Revenues	508,618	660,000		1,142,691
<u>OPERATING EXPENSES</u>				
Water Treatment, Transmission & Distribution	259,677	-		259,677
Sewer Treatment & Disposal	-	485,702	(25,927)	459,775
Administrative	26,445	65,948		92,393
Depreciation	291,089	158,570		449,659
TOTAL OPERATING EXPENSES	577,211	710,221		1,261,504
<u>NON-OPERATING REVENUES/EXPENSES</u>				
Interest Expense	(125,673)	-		(125,673)
Interest Income	3,261	354		3,615
Capital Grants	508,245	-		508,245
Taxes and Intergovernmental	-	-		-
Total Non-Operating Revenues/Expenses	385,834	354		386,187
<u>NET CHANGE IN NET POSITION</u>	317,241	(49,867)		267,374
<u>NET POSITION, BEGINNING OF YEAR</u>	9,771,962	5,740,492		15,512,454
<u>NET POSITION, END OF YEAR</u>	\$ 10,089,203	\$ 5,690,625		\$ 15,779,828

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, 2014

	Enterprise Funds		Total
	Water	Sewer	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Cash Received from Charges for Service	\$ 522,898	\$ 715,000	\$ 1,237,898
Deduct: Cash paid for Operating Expenses	(403,470)	(534,751)	(938,220)
NET CASH FLOWS FROM OPERATING ACTIVITIES	119,429	180,249	299,678
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Tax Assessment	-	-	-
Cash Received from Other	248,608	-	248,608
Interest Expense	(125,673)	-	(125,673)
Payment on Principle on Notes Payable	(36,000)	(107,493)	(143,493)
Loan to WW	(414,823)	414,823	-
Loan acquisition	112,500	337,500	450,000
Purchase of Capital Assets	(811,942)	(357,714)	(1,169,656)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(1,027,329)	287,116	(740,213)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Property Tax Receipts	-	-	-
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-	-	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest Receipts	3,261	354	3,615
NET CASH FLOWS FROM INVESTING ACTIVITIES	3,261	354	3,615
<u>NET INCREASE (DECREASE) IN CASH</u>	(904,639)	467,719	(436,920)
<u>CASH, BEGINNING OF YEAR</u>	1,534,907	445,872	1,980,779
<u>CASH, END OF YEAR</u>	\$ 630,268	\$ 913,591	\$ 1,543,859
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Operating Income (Loss)	\$ (68,593)	\$ (50,221)	\$ (118,814)
Adjustments to reconcile operating income to net cash provided by operating activities			
Add back depreciation	291,089	158,570	449,659
(Increase) Decrease in Operating Accounts Receivable	14,841	55,000	69,841
(Increase) Decrease in Prepaid	(616)	(10,363)	(10,979)
Increase (Decrease) in Accounts Payable	(117,292)	27,263	(90,029)
Increase (Decrease) in Accrued Liabilities	-	-	-
Net Cash Provided by Operating Activities	\$ 119,429	\$ 180,249	\$ 299,678

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

Herlong Public Utility District
Notes to Financial Statements
December 31, 2014

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 1960, under the California State Government Code. The District currently provides water and sewer services throughout the un-incorporated area of the Clearlake Oaks Community in Lake County.

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, 2014

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. The District considers property taxes as available if they are collected within 60 days after year-end. The assessor of the County determines the assessed valuations of such property and the tax collector of the County collects the taxes. 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, 2014

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.

\$152,809 of the cash balances are restricted for future USDA debt repayments.

Interest rate risk. - The District does not currently have a policy regarding interest rate risk.

Credit risk. - The District does not have a formal policy regarding credit risk

Custodial credit risk. - The District does not have a formal policy regarding custodial credit risk.

Concentration of credit risk. - The District does not have a policy for concentration of credit risk.

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.

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.

Herlong Public Utility District
Notes to Financial Statements
December 31, 2014

J. Accrued Expenses

The District allows its employees to accumulate up to a 1 year limit on the number of vacation hours. Any accumulated sick/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. The value of accumulated vacation and sick leave at December 31, 2014 is immaterial and has not been recorded on the financial statements.

K. Net Position

The District's net position represents the difference between its assets and liabilities in the statement of net assets. 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
 For year-end December 31, 2014**

Loan Payable is summarized as follows:

- USDA Loan/Grant, 4.25% payable in semiannual installments for 40 years.
- One year's payment in reserve within the first 10 years of loan
- Total Loan December 2009 3,075,000.00

<i>Year End December 31</i>	<i>Water Fund</i>		
	<i>Principal</i>	<i>Interest</i>	
2014	36,000	125,673	161,673
2015	38,000	124,100	162,100
2016	40,000	122,443	162,443
2017	41,000	120,721	161,721
2018	43,000	118,936	161,936
2019	45,000	117,066	162,066
2020-2023	200,000	447,865	647,865
2024-2028	301,000	507,131	808,131
2029-2033	370,000	436,050	806,050
2034-2038	456,000	348,628	804,628
2039-2043	561,000	240,996	801,996
2044-2048	691,000	108,396	799,396
2049	153,000	3,251	156,251
TOTALS:	2,975,000	2,821,256	5,796,208

HPUD has 2 C.D. at Plumas Bank in the total of \$152,808.60, so they are on track to having 1 year's payment in reserves for the USDA Loan/Grant within the 10 year time frame.



Page two of two of HPUD Financial Notes to the Year-End 2014 Statements

- Loan from Water to Waste Water Funds \$414,169.45
- Monthly interest rate of .05% is owed to Water funds
- Loan to be paid in full within 12 months

<i>Date</i>	<i>Amount Borrowed</i>	<i>Interest due</i>	<i>Total Loan</i>
9/25/14	\$297,596.45	148.80	297,745.25
10/2014	0	148.87	297,894.12
11/2014	0	148.95	298,043.07
12/17/14	\$116,573.00	207.31	414,823.38
Balance 12/31/14	\$414,169.45	653.93	414,823.38

Herlong Public Utility District
Notes to Financial Statements
December 31, 2014

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 2014, the District contracted with private insurance agencies for liability, property, crime damage, and employee and director insurances.

NOTE 3: DEFINED BENEFIT PENSION PLAN

The District entered into the Public Employees Retirement System (PERS). Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by an agency of the State of California. Employees are members of the Public Employees' Retirement System.

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

Funding Policy: Participants are required to contribute 8% of their annual covered salary, which is paid by the District for employees. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate; the current rate is 20.434% for safety employees of annual covered payroll. The rate for 2013 was 16.517%. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost: For December 31, 2014, the District's annual pension cost of \$54,625 for PERS was equal to the District's required and actual contributions. For December 31, 2013, the District's annual pension cost of \$46,071 for PERS was equal to the District's required and actual contributions.

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, 2014

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, 2014, 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 April 23, 2015, which is the date the financial statements were available to be issued.

Herlong Public Utility District

Supplemental Information

December 31, 2014

Herlong Public Utility District

Schedule of Expenditures of Federal Awards For the Year-Ended December 31, 2014

<u>Federal Grantor Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Defense			
<i>Passed Through Sierra Army Depot:</i>			
Utility Privatization Program	Not Applicable	W912GY-10	\$ 501,508
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 501,508</u>

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Herlong Public Utility District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

April 23, 2015

Board of Directors
Herlong Public Utility District
PO Box 515
Herlong, CA 96113

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2014, and have issued our report thereon dated **April 23, 2015**. 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 2014-1 and 2014-2 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.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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.

Pehling & Pehling CPAs
An Accountancy Corporation

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors

Herlong Public Utility District

Report on Compliance for Each Major Federal Program

We have audited Herlong Public Utility District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Herlong Public Utility District's major federal programs for the year ended December 31, 2014. Herlong Public Utility District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Herlong Public Utility District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Herlong Public Utility District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Herlong Public Utility District's compliance.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Herlong Public Utility District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of Herlong Public Utility District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Herlong Public Utility District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal

program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Herlong Public Utility District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-1 and 2014-2 to be material weaknesses

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Herlong Public Utility District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Herlong Public Utility District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Pehling & Pehling CPAs

April 23, 2015

Herlong Public Utility District

**Schedule of Findings and Questioned Costs
For the Year-Ended December 31, 2014**

SECTION I-SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Reportable condition(s) identified that are not considered to be material weakness(es)?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Reportable condition(s) identified that are not considered to be material weakness(es)?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Type of auditors report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
NA	DOD Utility Privatization Pro
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low risk audit?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no