Heber Light & Power

May 15, 2014

Eide Bailly LLP
5 Triad Center, Suite 750
Salt Lake City, Utah 84108

This representation letter is provided in connection with your audit of the financial statements of Heber Light & Power Company, which comprise the respective financial position of the business-type activities as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of May 15, 2014, the following representations made to you during your audit.

Financial Statements

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 7, 2014, including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.

2) We acknowledge our responsibility for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4) Significant assumptions we used in making accounting estimates are reasonable.

5) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

7) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

8) We have provided you with:

   a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters [and all audit or relevant monitoring reports, if any, received from funding sources].

   b) Additional information that you have requested from us for the purpose of the audit.

   c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

d) Access to minutes of the meetings of the board of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

9) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

10) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

11) We have no knowledge of any fraud or suspected fraud besides that relating to Tony Furness that affects the entity and involves:

    a) Management,

    b) Employees who have significant roles in internal control, or

    c) Others where the fraud could have a material effect on the financial statements.

12) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others, besides that relating to the Tony Furness fraud.

13) We have provided you with access to all Company records or information related to the fraud perpetrated by Tony Furness.

14) We have no knowledge of instances, during the audit period, of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

15) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

16) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government—specific

17) We have made available to you all financial records and related data.

18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

19) We have taken timely and appropriate steps to remedy fraud, violations of laws, regulations, contracts, or grant agreements, or abuse that the Company has discovered or you have reported to us.

20) We have a process to track the status of audit findings and recommendations.

21) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

22) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

23) The entity has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

24) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

25) We have no knowledge of any violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

26) As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes

27) The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except for revenue bonds and capital leases.

28) The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

29) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

30) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

31) Provisions for uncollectible receivables have been properly identified and recorded.

32) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

33) We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

34) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Blaine Stewart 5/15/2014

Blaine Stewart, General Manager — Date

Jason Norlen 5-15-2014

Jason Norlen, Generation & Logistics — Date

Bart Stanley Miller 5/15/2014

Bart Miller, Accounting/Finance Manager — Date

Financial Statements
December 31, 2013

Heber Light & Power Company

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors of
Heber Light & Power Company
Heber City, Utah

Report on the Financial Statements
We have audited the accompanying financial statements of Heber Light & Power (the Company) which comprise the statement of net position as of December 31, 2013, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express 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 and the applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its accounting policy for debt issuance costs to adopt the provisions of Governmental Accounting Standards Board Standard Number 65, *Items Previously Reported as Assets and Liabilities*. As discussed in Note 2 to the financial statements, the Company has retroactively restated the previously reported net position to account for bond issuance costs in accordance with this Statement. Our opinion is not modified with respect to this matter.

Adjustments to Prior Period Financial Statements

The financial statements of Heber Light & Power Company as of December 31, 2012, were audited by other auditors whose report dated February 28, 2013, expressed an unmodified opinion on those statements. As discussed in Note 2, the Company has restated its 2012 financial statements during the current year to correct certain errors in accordance with accounting principles generally accepted in the United States of America. As part of the 2013 financial statements, we also audited adjustments described in Note 2 that were applied to restate the 2012 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2012 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 financial statements as a whole. Our opinion is not modified with respect to this matter.

Other Matters

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

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we also have issued our report dated May 15, 2014 on our consideration of the Company'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* in considering the Company's internal control over financial reporting and compliance.

Eide Bailly LLP

Salt Lake City, Utah
May 15, 2014

Management Discussion and Analysis

This section of Heber Light & Power's annual financial report presents our discussion and analysis of Heber Light & Power's financial performance during the fiscal year ended December 31, 2013. Presented in the following pages are the December 31, 2013 Financial Statements of Heber Light & Power which include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows along with related notes.

In May, 2013, the Company discovered potential irregularities in the use of a company credit card and the reporting of business expenses by its former Chief Financial Officer. The Company immediately investigated this matter, using internal resources as well as independent accountants. This investigation determined that funds had been inappropriately taken from the company and actions were immediately taken to remove the employee from the company. The amount taken has been determined to be immaterial to the Company's financial statements. As a result of this investigation, the Company reviewed its internal financial controls and has taken appropriate steps, where necessary, to strengthen those controls. It has also referred the matter to law enforcement. The Board and Management remain committed to the review and enforcement of Company internal controls.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Heber Light & Power's basic financial statements which are comprised of two areas:

1. Year End Financial Statements
2. Notes to the Financial Statements

The financial statements also include notes that explain some of the information contained within and provide more detailed data.

Financial Highlights

Revenues from the sale of electricity were $13,513,792, an increase of $561,723 or 5% over 2012. This increased revenue has come at a time when we recognized an increase in our cost to serve our customers as power purchases expense increased by 10% to $5,566,440 and gas generation expense increased by $314,472 or 96% to $641,791, over the same period.

During 2013, Heber Light & Power collected impact fees from all customers who added new or additional electrical load to the utility's distribution system. This charge is in response to the rapid growth that has been experienced in the Heber Valley and provides the utility with the necessary funds to add new distribution system plant which is required to serve these customers. The funds collected as a result of the impact fees are restricted in that they can only be used for new or upgraded plant to serve new load and cannot be applied to operational expense. The Impact Fee revenue in 2013 was $636,023.

Heber Light & Power collects fees from developers and customers in aid of utility construction in order to provide electrical service. These fees, hereafter referred to as Contributed Capital, represent the recovery of costs associated with onsite electrical upgrades or infrastructure additions, and distribution system upgrades required as a result of the customer's connection. In 2013, the revenue from Contributed Capital was $339,856.

Operational Highlights

In 2013, Heber Light & Power's customer base continued to grow with the addition of several apartment units along with new commercial customers. Total customers increased to 11,530, an increase of 5% over 2012.

Financial Analysis

	2013	2012
Net Position		
Current and other Assets	$ 7,673,141	$ 8,039,932
Capital and Non-current Assets	28,288,594	27,125,720
Total Assets	35,961,735	35,165,652
Current Liabilities	2,058,416	1,415,025
Long Term Liabilities	11,512,589	11,724,973
Total Liabilities	13,571,005	13,139,998
Total Net Position	$ 22,390,730	$ 22,025,654

Heber Light & Power's total assets net of accumulated depreciation were $35,961,735. As identified in the preceding table, Total Net Position for 2013 increased by $365,076 or 1.6% in 2013. The majority of this increase is related to additions to the Distribution System, the continuation of the Advanced Metering Infrastructure (AMI) Project and the addition of a new Operations Building.

General Fund Budgetary Highlights

In 2013 operating expenses were below budget. The most significant positive variances resulted from favorable power purchases. In addition revenues exceeded budget as a result of favorable electricity sales.

Long - term Debt

In the current year, the Company did not finance any construction within its capital improvements through the use of any new bonds. The Company did acquire capital assets with a value of $222,934 through entering into capital lease agreements. Furthermore, no new debt was secured during 2013, for any other purposes.

Capital Assets

Capital asset additions for 2013 were related to additional infrastructure completed by the Company for potential electrical connections. Additional expenditures were made to build a new operations shop and office space therein. Furthermore, Heber Light & Power completed the implementation of the Automated Metering System for the majority of residential customers. Expenditures were also made to generating facilities to increase the useful lives of certain Company generating assets. Finally a new large line truck was placed into service during the year under a capital lease scenario. Each of these added assets have begun their depreciation cycles on a straight line basis in relation to the individual estimated useful lives.

Economic Factors and Next Year's Budget and Rates

The 2014 Budgeted Revenues are forecasted to be slightly lower than 2013 actuals but higher than budget. This is a reasonable estimate considering the effects of the current economy on new customer growth in Heber Light and Power's service territory.

Heber Light & Power continues to review its rates to ensure appropriate expense recovery and funding of capital purchases. Any rate adjustments considered will preserve existing revenues to ensure appropriate funding. Where possible, the goal of the utility is to fund its capital requirements without incurring additional debt.

Contacting Heber Light & Power's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, members and creditors with a general overview of Heber Light & Power's finances and to demonstrate the utility's accountability for the money it receives. If you have questions about this report or need additional financial information please contact our office at (435) 654-1581.

Assets	
Current Assets	
Cash and cash equivalents	$ 4,506,980
Restricted cash and cash equivalents	692,274
Trade accounts receivable	1,277,502
Unbilled accounts receivable	505,919
Less allowance for doubtful accounts	(309,129)
Net accounts receivable	1,474,292
Accrued interest receivable	1,175
Other receivables	50,000
Inventory at cost (first-in, first-out)	948,420
Total Current Assets	7,673,141
Non-current Assets	
Land and non depreciable assets	366,520
Other capital assets, net of depreciation	27,922,074
Total capital assets	28,288,594
Total Assets	$ 35,961,735
Liabilities	
Current Liabilities	
Trade accounts payable	$ 1,604,098
Other accrued payables	78,217
Accrued related party payable	46,101
Long-term debt - current	330,000
Total Current Liabilities	2,058,416
Non-current Liabilities	
Long-term debt	10,728,316
Deferred revenues	784,273
Total Non-Current Liabilities	11,512,589
Total Liabilities	13,571,005
Net Position	
Net investment in capital assets	18,426,019
Restricted for capital projects	1,011,334
Unrestricted	2,953,377
Total Net Position	$ 22,390,730

See Notes to Financial Statements

Heber Light & Power Company
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2013

Operating Revenues	
Electricity sales pledged as security for revenue bonds	$ 13,513,792
Connection fees	29,039
Other income	143,512
Total Operating Revenues	13,686,343
Cost of Sales	
Power purchases	5,560,021
Energy rebates	6,420
Gas generation fuel	641,791
Wages	758,434
Total Cost of Sales	6,966,666
Gross Profit	6,719,677
Operating Expenses	
Salaries, wages and benefits	2,583,560
Depreciation	1,811,772
Insurance	906,123
Professional services	180,984
Maintenance and training	296,873
Materials	381,942
Building expenses	17,176
Office expense and postage	164,287
Truck expense	183,605
Bad debt expense	22,212
Credit card fees	70,376
Travel	47,716
Miscellaneous	37,637
Total Operating Expenses	6,704,263
Income from Operations	15,414
Non-Operating Revenues (Expenses)	
Interest income	41,540
Interest and bond issuance costs expense	(385,577)
Loss on sale of assets	17,820
Total Non-Operating Revenues (Expenses)	(326,217)
Loss Before Contributions	$ (310,803)

Contributions	
Impact fees	$ 636,023
Capital contributed	339,856
Total Contributions	975,879
Change in Net Position	665,076
Total Net Position at Beginning of Year (as Reported)	22,743,340
Prior period adjustment (see Note 2)	(717,686)
Total Net Position at Beginning of Year (as Restated)	22,025,654
Distributions to owners	(300,000)
Total Net Position at End of Year	$ 22,390,730

Operating Activities	
Receipts from customers	$ 13,470,134
Payments to suppliers	(7,984,081)
Payments to employees	(3,027,707)
Net Cash from Operating Activities	2,458,346
Investing Activities	
Interest income	41,540
Net Cash from Investing Activities	41,540
Financing Activities	
Proceeds from Bond Issuance	(16,592)
Purchase/disposal of capital assets	(2,469,815)
Principal paid or refunded on long-term debt	(325,000)
Interest paid on long-term debt	(385,577)
Proceeds from impact fees	636,023
Distributions to owners	(300,000)
Net Cash Flows used for Financing Activities	(2,860,961)
Net Change in Cash and Cash Equivalents	(361,075)
Cash and Cash Equivalents, Beginning of Year	5,560,329
Cash and Cash Equivalents, End of Year	$ 5,199,254
Reconciliation of Operating Income to Net Cash from Operating Activities	
Income from operations	$ 15,414
Adjustments to reconcile operating income to net cash	
Depreciation	1,811,772
Changes in assets and liabilities	
Accounts receivable, net of allowance	(216,209)
Accrued interest receivable	56,784
Other receivables	181,916
Inventory	41,184
Trade accounts payable	203,913
Accrued liabilities	306,734
Revenues collected in advance	56,838
Net Cash from Operating Activities	$ 2,458,346
Supplemental Disclosure of Cash Flow Information	
Capital assets acquired through capital leases	$ 222,934
Capital asset contributions-in-aid of construction	$ 339,856

Note 1 - Significant Accounting Policies

The accounting policies of Heber Light & Power Company (the Company) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

Organization and Purpose

Heber Light & Power is an interlocal entity serving customers within the Heber Valley. Heber Light & Power provides electricity to the owner municipalities of Heber City, Midway and Charleston as well as the towns of Daniel and Independence along with unincorporated areas of Wasatch County within its service territory, ("Members").

The Company is a separate legal entity. No other governmental units exercise significant control over the Company. The Company does not meet the requirements of a component unit as defined by the Governmental Accounting Standards Board (GASB) in its Section 2100, *Defining the Financial Reporting Entity*.

The purpose of the Company is to plan, finance, develop, construct, improve, operate, and maintaining projects for the generation, transmission, and distribution of power for the benefits of its customers.

Basis of Accounting

The financial statements of the Company 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. With respect to proprietary activities, the Company has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which supersedes Statement No. *20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

The financial statements are accounted for using economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Unbilled electric utility service receivables are recorded at year end.

When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue and Expenses

Operating revenue reported in the Statement of Revenues, Expenses, and Changes in Net Position includes revenues and expenses related to the primary, continuing operations of the Company. Principal operating revenues are charges to the customers for sales or services. Principal operating expenses are the costs of providing services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating.

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation. Depreciation of all exhaustible fixed assets used by the Company is charged as an expense against operations. Accumulated depreciation is reported on the statement of net position. Fixed Assets are depreciated over their estimated useful lives and calculated using the straight line method.

Rates

Utah State law provides that the Company's Board of Directors (Board) has sole authority to establish power supply rates to its customers. The 2013 approved rates were effective for all billings beginning June 15, 2011.

Unpaid Employee Benefits

Accumulated unpaid vacation and other employee benefit amounts are accrued when incurred using the accrual basis.

Income Taxes

The Company is not subject to federal or state income taxes since it is a political subdivision of the State of Utah owned by three municipalities.

Investments

All investments are recorded at fair value. The Company considers cash in the bank and funds invested with the Public Treasurer's Investment Fund (PTIF) as cash and cash equivalents. The funds invested in the PTIF represent amounts held in reserve for capital additions to the system along with rate stabilization contingencies.

Inventory

Inventory is valued at average cost and consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capitalized as inventory items are consumed or put in service.

Capital Assets

Capital assets include generation assets, transmission assets, furniture, utility vehicles, and other equipment with initial costs of more than $1,000. Capital assets are stated as cost, less accumulated depreciation. All expenditures that increase the useful lives of a capitalized asset are included in the costs of that asset and depreciated over the useful life of that asset. Routine maintenance and repairs are expensed in the period incurred and not capitalized. Deprecation is calculated using the straight-line method over the useful life of the asset.

Accounts Receivable

Trade accounts receivable include amounts due from customers for billed electricity sales. All receivables are current and therefore due within one year. Unbilled revenues are recorded at year end. The trade receivables and unbilled revenues are reported net of an allowance for uncollectible accounts. This allowance is management's estimate based on past collection history and known circumstances regarding current customers.

Net Position

Net position is categorized into the following three classes:

- Net investment in capital assets: This section of net position includes the value of capital assets net of accumulated depreciation and the unpaid balances of any debt used in the purchase of those capital assets.

- Restricted: This section of net position includes all external constraints on cash imposed by creditors, contributors, and laws or regulations the company must adhere to.

- Unrestricted: This section of net position includes all amounts that do not meet the definition of the above other two sections of net position.

Budgeting

The Company uses the following procedures in establishing the budget that is submitted to the State Auditor.

1. Management submits a proposed budget to the Board of Directors in November.
2. The Board of Directors approves a proposed budget.
3. In December the proposed budget is adopted in a public hearing.
4. The budget is reviewed in the following December and amended (if necessary) in a public hearing.

When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first where permissible, and then unrestricted resources as they are needed.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of New Accounting Principles

GASB Statement No. 65

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65: *Items Previously Reported as Assets and Liabilities*. This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard was effective for the Heber Light & Power Company during the year ended December 31, 2013 and was applied retroactively by restating financial statements for all periods presented.

The provisions of GASB 65 require that debt issuance costs (deferred financing costs) be recognized as an expense in the period incurred. The implementation resulted in the removal of previously recognized deferred financing costs totaling $283,722 and reduction in net position of $283,722 as of December 31, 2012.

Note 2 - Restatement of Prior Year Financial Statements

During the audit of the financial statements it was discovered that several accounting errors occurred in prior periods and the beginning balances for the fiscal year 2013 needed to be adjusted to correct the prior year errors. The following table reconciles as previously reported to as restated results:

	December 31, 2012			
	As Previously Reported	Restatement		As Restated
Statement of Net Position:				
Trade Accounts Receivable	$ 1,325,851	$ (67,768)	b	$ 1,258,083
Other capital assets, net of depreciation	27,433,423	(365,662)	e	27,067,761
Trade Accounts Payable	1,188,245	88,840	a, g	1,277,085
Deferred Revenue	900,000	(58,889)	d	841,111
Long-Term Debt	10,629,557	254,305	f,c	10,883,862
Invested in Capital assets not of related debt	16,803,866	(254,305)	c	16,549,561
Total Net Position	$ 22,743,340	$ (717,686)	a,b,d,e,f,g	$ 22,025,654

The following is an explanation of the corrected prior period error corrections:

a. Liability recorded in error: During prior periods a liability was recorded that was never reduced after payment was made in the accounting records.
b. Improper recording of a receivable: In prior years a receivable was recorded and was never reduced after payment was received.
c. Bond Interest and Principal: During the prior year bond interest and principal was recorded in the incorrect period.
d. Recognition of deferred revenue: the deferred revenue account was not reduced each year for the amount of the revenue that was recognized each year. An adjustment was made to update the balance of the deferred revenue.
e. Miscalculation of depreciation expense: depreciation expense was recalculated this year and adjusted to correct the accumulated depreciation balance that should exist in the statement of net postion.
f. GASB 65 adjustment: Due to the adoption of GASB 65 (note 1) an adjustment was made to expense the bond issuance costs.
g. Duplicate transaction: During the prior year a transaction was recorded twice, an adjustment was booked to reverse the duplicate transaction.

Note 3 - Cash and Investments

Deposits and investments for the Company are governed by the Utah Money Management Act of the Utah Code Annotated, Title 51, Chapter 7 (The Act) and by rules of the Utah Money Management Act Council. Deposits are not collateralized nor are they required to be by State statute.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the Company and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested. Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements or invested in securities representing direct obligations of or obligations guaranteed by the United States government, agencies of the United States government, any state within the territorial United States of America; or repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements; or certain other investments.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Company's deposits may not be recovered. The Company's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Company to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Credit Risk. Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Company's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

The Company is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subjected to the Act and Council requirements. The PTIF is not registered with the SEC as an investment Company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Company manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less.

Concentration of Credit Risk. The Company places no limit on the amount that the Company may invest in any one issuer. The Company has no concentration of credit risk.

The Company's investment policy only allows for investments in the Utah Public Treasurer's Investment Fund (PTIF).

Cash and Cash Equivalents

Cash and Cash Equivalents	
Unrestricted Cash	$ 1,984,182
Cash invested in PTIF	2,522,798
Restricted cash for bond resolutions	692,274
Total cash and cash equivalents	$ 5,199,254

At December 31, 2013, the Company's investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
Utah Public Treasurer's Investment Fund	$ 2,522,798	N/A	Unrated

Note 4 - Capital Assets/Depreciation

The Company's policy is to capitalize assets which exceed $1,000 and have an estimated useful life of more than one year. All capital assets of the Company are depreciable, with the exception of land and construction projects not completed.

Depreciation of capital assets has been computed using the straight-line method. Useful lives and depreciation amounts for the year are as follows:

Capital Assets	Useful Life Years
Buildings	20-50
Hydro-Electric plant	10-40
Machinery, Equipment and Tools	5-12
Distribution System	5-30
Trucks	3-5
Office Equipment	5-10
Generating Plant	8-20
Hyrum Christensen Reservoir	10

Changes in capital assets are as follows:

	Balance 12/31/2012 (As restated)	Additions	Deletions or Reclassifications	Balance 12/31/2013
Capital Assets not being depreciated				
Land	$ 203,045	$ -	$ -	$ 203,045
Water Rights	163,475			163,475
Total Capital Assets not being depreciated	366,520	-	-	366,520
Capital Assets being depreciated				
Buildings	1,726,053	352,487		2,078,540
Hydro-Electric plant	2,776,920	-		2,776,920
Machinery, Equipment and Tools	2,203,131	22,294		2,225,425
Distribution System	34,336,704	1,424,898		35,761,602
Trucks	1,373,932	390,465	(130,089)	1,634,308
Office Equipment	1,102,427	23,140		1,125,567
Capital Improvements	1,218,950	746,740		1,965,690
Generating Plant	1,602,829	72,581		1,675,410
Hyrum Christensen Reservoir Dam and Pipe	42,484	-		42,484
	46,383,430	3,032,605	(130,089)	49,285,946
Accumulated Depreciation	(19,682,189)	(1,811,772)	130,089	(21,363,872)
Total Capital Assets being depreciated	26,701,241	1,220,833	-	27,922,074
Total Capital Assets, net	$ 27,067,761	$ 1,220,833	$ -	$ 28,288,594

Note 5 - Related Party Transactions

The Company's policy is to bill the member entities for their respective power usage on the same basis and costs as with regular customers. During the year ended December 31, 2013, the Company billed the related entities $66,963 for street lighting electricity. The Board of Directors approved the write off of the receivable amounts from these related entities for street lighting electricity.

Note 6 - Defined Benefit Pension Plan

Local Government – Cost Sharing

Plan Description. Heber Light & Power Company contributes to the Local Governmental Noncontributory Retirement Tier I System and the Local Government Contributory Retirement Tier II System, which are a cost-sharing multiple-employer defined benefit pension plans administered by Utah Retirement Systems. Utah Retirement Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the systems and plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy. The salaries and wages paid by Heber Light & Power Company are covered by the Local Governmental Noncontributory Retirement Tier I System. In 2013, Heber Light & Power hired employees that were required to participate in the Local Government Tier II Contributory System and as a result amounts following depict employer contributions and associated salary.

Heber Light & Power is required to contribute a percent of covered salary with respect to the Local Governmental Contributory Retirement System; 14.05% from January to June 2013, and 13.99% from July to December 2013. Heber Light & Power is also required to contribute a percent of covered salary with respect to the Local Governmental Noncontributory Retirement System; 16.04% from January to June, 2013 and 17.29% from July to December, 2013. The contribution rates are actuarially determined rates.

The contribution requirements of the systems are authorized by statute and specified by the Board.

Heber Light & Power's contributions for the various systems for the years ending December 31, 2013, 2012 and 2011 respectively were, for the Noncontributory System, $438,229, $389,210 and $316,960. Employer contributions for the Contributory System ending December 31, 2013, were $10,105.

The contributions were equal to the required contributions for each year.

Internal Revenue Code Section 401(k) Plan

The Company sponsors a defined contribution deferred compensation plan administered by the Utah Retirement Systems under the Internal Revenue Code Section 401(k). The plan is available to permanent full-time employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. The 401(k) deferred compensation monies are not available to the Company or its general creditors. The Company's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. During the years ended December 31, 2013, 2012 and 2011 contributions totaling $75,948, $88,331, and $74,785, respectively, were made to the plan by employees and $71,144, $56,756 and $40,769, respectively, by the Company.

Internal Revenue Code Section 457 Plan

The Company sponsors a defined contribution deferred compensation plan administered by the Utah Retirement Systems under the Internal Revenue Code Section 457. The plan is available to permanent full-time employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. The 457 deferred compensation monies are not available to the Company or its general creditors. The contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. During the years ended December 31, 2013, 2012 and 2011 contributions totaling, $39,523, $28,511, and $15,860, respectively, were made to the plan by employees.

Note 7 - Long-Term Debt

2012 (2002) Series Bonds Payable

During 2002, the Company issued Series 2002 Bonds to provide for improvements and additions to the electric generation, transmission and distribution facilities of its system.

On June 5, 2012, Heber Light & Power refunded and defeased in substance its outstanding 2002 Series Electric Revenue Bonds of $3,610,000, carrying interest rates of 3.9 percent to 5.0 percent, with new 2012 Series Electric Revenue refunding bonds of $3,735,000, issued at interest rates of 2.0 percent to 4.0 percent. Both series require annual debt service payments with final payment due on June 15, 2025 for the 2002 bonds and due on December 15, 2025 for the 2012 bonds.

All issuance costs of the transaction ($111,880) were paid from bond proceeds. The bonds were issued at a premium of $225,070. Heber Light & Power also contributed $555,824 from debt service reserve funds together with the net proceeds of the new bonds to deposit with an escrow agent to provide for debt service on the 2002 bonds to the call date of June 15, 2025. Unamortized 2002 bond issuance costs were $57,202 at the date of refunding. Due to the change implemented in GASB No. 65 all bond issuance costs were removed as a reduction to net assets as of December 31, 2013. The refunding bonds were issued to advance refund bonds issued in 2002. Heber Light & Power pledged income, net of operating expenses, derived from electric sales to repay the refunding bonds. The bonds are payable solely from electric sales customer net revenues and are payable through 2025. Annual principal and interest payments are expected to require less than ten percent of the total electric sales.

Debt service requirements of the 2012 Series revenue bonds are as follows:

	Principal	Interest	Total
2014	$ 255,000	$ 94,800	$ 349,800
2015	270,000	89,700	359,700
2016	275,000	84,300	359,300
2017	275,000	78,800	353,800
2018	290,000	73,300	363,300
2019-2023	1,540,000	247,950	1,787,950
2024-2025	450,000	22,000	472,000
	$ 3,355,000	$ 690,850	$ 4,045,850

2010 Series Bonds Payable

During 2010, the Company issued Series 2010 Bonds to pay off the remaining balance of the Caterpillar Capital Lease and to provide for improvements and additions to the electric generation, transmission and distribution facilities of its system.

On November 23, 2010, Heber Light & Power issued $6,525,000 Electric Revenue Bond Series 2010 with coupon interest rates ranging from 3.00 percent to 7.00 percent. $1,675,000 were used to advance refund the Caterpillar Capital Lease.

Interest payments are due semi-annually beginning June 15, 2012, with the last interest payment scheduled on December 15, 2035. Principal payments are due annually beginning December 15, 2012, with the last payment scheduled December 15, 2035.

The Series 2010 Bonds are special obligations of the Company payable solely from and secured solely by (a) the proceeds of the sale of Bonds, (b) the Revenues, and (c) all Funds established by the Indenture including the investments thereof. The pledge of the Revenues is subject to (1) the prior payment from Revenues of the Operation and Maintenance Costs of the System, (2) any required rebate of investment earnings to the United States of America, and (3) the application of the Revenues and Funds for the purposes permitted by, and on the terms and conditions set forth in the Indenture.

The Indenture provides that a Reserve Fund Surety Bond be purchased to eliminate the need for a fully funded Debt Reserve Fund. The premium for the Surety Bond was paid from the original disbursements of the Bond proceeds.

Debt service requirements of the 2010 Series revenue bonds are as follows:

	Principal	Interest	Total
2014	$ 75,000	$ 279,325	$ 354,325
2015	70,000	277,075	347,075
2016	70,000	274,275	344,275
2017	80,000	271,475	351,475
2018	75,000	268,275	343,275
2019-2023	445,000	1,289,625	1,734,625
2024-2028	1,720,000	1,091,798	2,811,798
2029-2033	2,460,000	607,197	3,067,197
2034-2035	1,150,000	79,170	1,229,170
	$ 6,145,000	$ 4,438,215	$ 10,583,215

Included in the interest amounts are reductions associated with Build America Bonds subsidies.

The Company pledges income derived from the sale of electricity to repay the series 2012 and 2010 bonds. The bonds are payable solely from electric customer net revenues and are payable through 2025 and 2035, respectively. Annual principal and interest payments are expected to require less than ten percent of the total annual electricity sales.

The following is a summary of changes in long-term debt for the year ended December 31, 2013:

Long Term Debt Summary	Beginning Balance (As Restated)	Additions	Reductions	Balance	Due Within One Year
2012 Revenue Bonds	$ 3,615,000	$ -	$ (260,000)	$ 3,355,000	$ 255,000
2010 Revenue Bonds	6,210,000	-	(65,000)	6,145,000	75,000
Compensated Absences	142,281	161,120	(148,916)	154,485	-
Termination Benefits	309,522	264,065	(50,328)	523,259	-
Other Post Employment Benefits	391,366	109,251	(42,079)	458,538	-
Unamortized Bond Premium	215,692	-	(16,592)	199,100	-
Capital Lease Payable	-	222,934	-	222,934	-
Total Principal	$ 10,883,861	$ 757,370	$ (582,915)	$ 11,058,316	$ 330,000

Capital Lease Payable

The Company is the lessee of an Altec Digger Derrick Truck under a capital lease expiring in 2018. The asset and liability under the capital lease are recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The asset is depreciated over the lower of the related lease term of five years or the estimated productive life of the asset. Depreciation of the asset under the capital lease is included in depreciation expense for 2013.

Minimum future lease payments under capital leases as of December 31, 2013 for each of the next five years and in aggregate are:

Year Ending December 31,	
2014	$ 52,455
2015	52,455
2016	52,455
2017	52,455
2018	17,485
Total Minimum Lease Payments	$ 227,305

The interest rate on the capitalized lease is 4.00% based on the lower of the company's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

Termination Benefits

The Company will compensate an employee with 5 years of Company service at his/her most recent base salary rate for unused sick leave up to a maximum of 190 days. At December 31, 2013, future payments reported as a liability in the Statement of Net Position was $523,259. The calculation to accrue this liability is based on the assumption that nonexempt employees hired before July 1, 2011 with 5 years of service are paid for 75% of unused sick leave, exempt managers are paid 100% of unused sick leave, and nonexempt employees hired after July 1, 2011 are paid 0% for less than 5 years of service, 25% for 5 to 10 years of service, 50% for 11 to 24 years of service, and 75% for service of 25 years or more. The employee's hourly rate in effect and the estimated hours, based on the above assumptions is then used to determine an estimate of the benefit.

The Company funds the program on a pay-as-you-go basis. During the year ended December 31, 2013, 35 employees were included in the program.

All Company employees who have completed 25 years of service and are eligible for Utah State Retirement benefits are eligible for participation with the Company in purchasing up to 5 years of retirement credit. Under this benefit, the Company may provide up to 95% of the actuarially determined rate for the credits. The estimated cost of projected credit purchases cannot be reasonably estimated because information necessary to determine the amount is unable to be determined. The Company funds the program on a pay-as-you-go basis. During the year ended December 31, 2013, no employees exercised this benefit.

Note 8 - Other Post-Employment Benefits (OPEB)

The Company has implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.*

Plan Description

The Company participates in the Public Employees Health Program (PEHP) and offers medical insurance coverage to those employees who retire with over 25 years of service. For employees hired before July 1, 2011, the Company will pay the costs of the employee’s medical insurance for 5 years from the employee’s retirement date, or until the employee reaches age 65, whichever comes first. If the employee who began employment before July 1, 2011 and retires with 30 or more years of service, the Company will pay the employee’s medical insurance until the employee reaches age 65.

For employees hired on July 1, 2011 or later, the Company will, upon the employee’s retirement with 25 years or more service to the company, provide the employee with medical insurance coverage. The Company will pay the costs of the employee’s retirement medical insurance for a period of five years from date of their retirement or the employee’s sixty-fifth birthday, whichever occurs first. The plan does not issue a publicly available financial report.

Funding Policy

The company pays the full cost of retiree health benefits. For the fiscal year 2013, Heber Light & Power contributed $42,079 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The Company's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Company's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Company's net OPEB obligation:

Annual Required Contribution	$ 109,603
ARC Adjustment	(14,050)
Interest on Net OPEB Obligation	13,698
Annual OPEB Cost	109,251
Contributions made	42,079
Increase in Net OPEB Obligation	67,172
Net OPEB Obligation at beginning of year	391,366
Net OPEB Obligation at end of year	$ 458,538

The Company's annual OPEB cost, the percentage of annual OPEB cost contributed towards the plan, and the Net OPEB Obligation are provided in the table below:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	15,607	26.6%	22,859
December 31, 2012	87,942	30.5%	391,366
December 31, 2013	$ 109,251	38.5%	$ 458,538

Funded Status and Funding Progress

As of December 31, 2013, the actuarial accrued liability (AAL) for benefits was $1,271,546, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $2,720,391, and the ratio of the unfunded AAL to the covered payroll was 46.7%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.
The schedule of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accured Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL As a Percentage of Covered Payroll
1/1/2011	$ -	$ 935,010	$ 935,010	0%		
1/1/2013	$ -	$ 1,271,546	$ 1,271,546	0%	$ 2,720,391	46.7%

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.
The following simplifying assumptions were made:

Retirement age for active employees—Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Current marital status is assumed to continue throughout retirement.
Mortality – Life expectancies were based on the RP-2000 Combined Healthy Mortality Table.

Turnover—Non-group specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate—The expected rate of increase in the healthcare insurance premiums was based on the Society of Actuaries' Getzen Model. A rate of 7.50% initially, reduced to an ultimate rate of 4.24% after 71 years, was used.

Health insurance premiums—Health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long term inflation assumption of 2.8% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for intermediate growth.

Payroll growth rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the Company's short-term investment portfolio, a discount rate of 3.50% was used. In addition, a simplified version of the Unit Credit actuarial cost method was used. The unfunded actuarial liability is being amortized on a level percent of pay, open basis over 30 years.

Note 9 - Commitments and Contingent Liabilities

Membership in Utah Associated Municipal Power System (UAMPS)

The Company is a member of the Utah Associated Municipal Power Systems (UAMPS). UAMPS is a joint action agency and political subdivision of the State of Utah formed under an Organization Agreement dated November 6, 1980, pursuant to the provisions of the Utah Inter-local Cooperation Act. UAMPS' membership consists of 38 municipalities, one joint action agency, one electric service district, one public utility district, two water conservancy districts, and one non-profit corporation.

UAMPS is a legally separate entity, which possesses the ability to establish its own budget, incur debt, sue and be sued, and own and lease property. No other governmental units in Utah exercise significant control over UAMPS. As such, UAMPS is not a component unit as defined by the Governmental Accounting Standards Board in their Statement No. 14, "The Financial Reporting Entity".

UAMPS' purposes include planning, financing, developing, acquiring, constructing, improving, bettering, operating, and maintaining of projects, or ownership interests or capacity rights therein, for the generation, transmission and distribution of electric energy for the benefit of its members.

A summary of the UAMPS Take or Pay Agreements and/or projects the Company participated in is as follows:

The Company participated in various individual projects by entering into power sales and/or transmission service contracts. Under various power sales contracts, UAMPS' members are required to pay their proportionate share of all operation and maintenance expenses and debt service on the revenue bonds issued by UAMPS, and any other energy-related costs, as defined in the contract and in some instances regardless of whether any power is supplied to the Company ("Take or Pay Agreements"). The Company may be required to make additional equity investments in UAMPS or in any specified projects of UAMPS. Under the organization agreement, the four members with the greatest financial obligations to UAMPS are each entitled to designate one of UAMPS' directors. All other directors are selected from the representatives of the remaining UAMPS members.

Separate financial statements for UAMPS may be obtained from the Manager of Finance at 155 North 400 West, Suite 480, Salt Lake City, Utah 84103.

a) Hunter II Generation Project (Hunter II)

Hunter II, part of the Hunter Station in Emery County, Utah, is a coal fired, steam-electric generating unit with a net capacity of 430 megawatts. Hunter has commercially operated since June 1980 and is jointly owned by PacifiCorp, Deseret Generation & Transmission Co-operative and UAMPS. UAMPS owns an undivided 14.582% interest in Hunter II, representing approximately 63 megawatts of capacity and energy. The Company's current output entitlement in the Hunter II generating project is 5.82% of UAMPS ownership.

b) Craig Mona Transmission Project (Craig Mona)

The Craig Mona project involves the transmission capability of two interconnected 345 KV Transmission lines. UAMPS and its members own a 15% interest in the first segment, running west from Craig, Colorado, to the Bonanza Power Plant in northeast Utah. In 2010, Heber Light & Power is able to share, sell or use as conditions warrant. UAMPS holds an entitlement to 54 megawatts capacity in the second segment from Bonanza to an interconnection at Mona, Utah.

The Company acquired 4.58% of UAMPS transfer rights in the Craig Mona transmission project.

c) The Colorado River Storage Project (CRSP)

CRSP is federally owned and operated by the United States Bureau of Reclamation. One purpose of CRSP is the production of hydroelectric capacity and energy. Heber Light & Power acts as its own purchasing agent for its allocation of CRSP energy. The contract in the CRSP project ran through 2004, and has been renewed annually. The Company has an entitlement of 3 MW.

d) Pool Project

The Pool Project brings the UAMPS members together in a resource clearinghouse for mutual advantages. The pool matches the member with surplus resources to those members who have a deficit of resources on an hourly basis.

The Company participates in the UAMPS pool for planned and unplanned transactions. The agreement requires participants to pay the costs of the pool based on (a) direct costs of planned transactions, (b) the hourly costs of energy and associated transmission supplied on unplanned transactions and (c) the administrative costs of the pool.

Termination of the pooling agreement requires a five-year notification.

a) Government & Public Affairs Project

Lobbying and the political considerations of UAMPS members who elect to participate in these actions are under the Government and Public Affairs Project. Nationally and locally, UAMPS represents a strong political stance on issues related to electric utilities and the public power movement. Under this project's umbrella comes UAMPS' affiliation with APPA and CREDA.

Other Contractual Obligations

a) Intermountain Power Agency (IPA) Contract

The Company is a member of the Intermountain Power Agency (IPA), a separate legal entity established under the guidelines of the Utah Inter-local Co-operation Act.

The IPA provides financing for the Intermountain Power Project (IPP) located near Delta, Utah for the benefit of its members. IPA has approximately $5.1 billion of revenue bonds that are paid from the revenues received from participant charges. Under the terms of its original contract with IPA, the Company is entitled and obligated to purchase 0.627% of the plant's power output. However, under a subsequent excess power sales agreement, the Company has a bilateral agreement with certain California purchasers for the duration of the project unless the Company recalls any or all of the entitlement. In recent years, the Company has reclaimed some of its entitlement from California purchasers. The Company is liable for operating expenses and repayment of the outstanding bonds only in the event of a prolonged power outage (in excess of 24 months) and/or failure to perform under the agreement on the part of each of the California purchasers. Utah Association of Municipal Power Systems (UAMPS) serves as the agent for these agreements.

b) Jordanelle Generation Plant and Power Purchase Agreement

During 2005, Heber Light and Power began construction of substation and distribution facilities to receive all of the energy from the Jordanelle Generating Station. Work was completed in 2008 and commercial output began in July of that year. The agreement contains provisions for the division of net income after the payment of expenses including bond and reserve payments. When these provisions apply, the net income is divided two-thirds to Jordanelle and one-third to the Company ("Company Share").. After the agreement was executed, the parties determined that the Company's Facilities would cost an additional $900,000, bring the total to $2.1 million for the Company's Facilities. The Jordanelle thus issued bonds in the amount of $26,500,000 which included the $2.1 million that was used to pay for the Company's Facilities. Due to the increased cost of the Company's Facilities, the parties amended the agreement to provide that the Company Share would not be paid to the Company until the $900,000 plus the pro rata share of the bond closing cost and interest at the District's bond rate are paid to the District. This amount is shown on the Statement of Net Position as a deferred gain in the amount of $784,273 as of December 31, 2013. The Company Share for the year ended December 31, 2013 in the amount of $56,838 is shown on the Statements of Revenues, Expenses and Changes in Net Position in Other income.

Termination Benefits

The Company will compensate an employee with 5 years of Company service at his/her most recent base salary rate for unused sick leave up to 190 days. At December 31, 2013, future payments reported as a liability in the Statement of Net Position was $523,259. The calculation to accrue this liability is based on the assumption that nonexempt employees hired before July 1, 2011 with 5 years of service are paid for 75% of unused sick leave, exempt managers are paid 100% of unused sick leave, and nonexempt employees hired after July 1, 2011 are paid 0% for less than 5 years of service, 25% for 5 to 10 years of service, 50% for 11 to 24 years of service, and 75% for service of 25 years or more. The employee's hourly rate in effect and the estimated hours, based on the above assumptions is then used to determine an estimate of the benefit.

The Company funds the program on a pay-as-you-go basis. During the year ended December 31, 2013, 35 employees were included in the program.

All Company employees who have completed 25 years of service and are eligible for Utah State Retirement benefits are eligible for participation with the Company in purchasing up to 5 years of retirement credit. Under this benefit, the Company may provide up to 95% of the actuarially determined rate for the credits. The estimated cost of projected credit purchases cannot be reasonably estimated because information necessary to determine the amount is unable to be determined. The Company funds the program on a pay-as-you-go basis. During the year ended December 31, 2013, no employees exercised this benefit.

Note 10 - Subsequent Events

In preparing these financial statements, Heber Light & Power has evaluated events and transactions for potential recognition or disclosure through May 15, 2014, the date the financial statements were available to be issued.

CPAs & BUSINESS ADVISORS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Chairman of the Board of Directors of
Heber Light & Power
Heber City, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Heber Light & Power(the Company), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated May 15, 2014.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2013-A through 2013-C in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider item 2013-D as described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

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

Managements Response to Findings

The Company's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Eide Bailly LLP

Salt Lake City, Utah
May 15, 2014

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditors' Report on Compliance and on Internal Controls over Compliance in Accordance with the *State of Utah Legal Compliance Audit Guide*

To the Chairman of the Board of Directors of
Heber Light & Power
Heber City, Utah

Report on Compliance

We have audited Heber Light & Power's compliance with the general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended December 31, 2013.

The general compliance requirements applicable to the entity are identified as follows:

- Cash Management
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues
- Impact Fees
- Utah Retirement Systems
- Fund Balance

Heber Light & Power did not receive any major assistance programs from the State of Utah during the year ended December 31, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of Heber Light & Power's management.

Auditor's Responsibility

Our responsibility is to express an opinion on Heber Light & Power's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State of Utah Legal Compliance Audit Guide*. Those standards and the *State of Utah Legal Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Company and its major programs occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Heber Light & Power's compliance with those requirements.

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Opinion

In our opinion, *Heber Light & Power*, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State of Utah Legal Compliance Audit Guide* and which are described in the accompanying schedule of findings and recommendations as items 2013-1.

Report on Internal Control over Compliance

Management of Heber Light & Power is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Company's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 the Company's internal control over compliance.

A *deficiency in internal control over compliance* 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, noncompliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Managements Response to Findings

Heber Light & Power's response to the findings identified in our audit are described in the accompanying Schedule of Findings. The Company's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of Report

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

Eide Bailly LLP

Salt Lake City, Utah
May 15, 2014

2013-A Material Adjustments
Material Weakness

Criteria: Generally accepted accounting principles require management of Heber Light & Power to have proper internal controls in place that will ensure the completeness of the financial statements.

Condition: As part of our audit procedures, we proposed material audit adjustments to the Company's recorded account balances in the areas of cash, receivables, inventory, capital assets, debt, accrued liabilities, revenues, and expenses, which if not recorded, would have resulted in a material misstatements of the Company's financial statements.

Cause: During our audit procedures we indicated that the proper controls were not in place to ensure the correct recording of transactions during the year.

Effect: The effect of this control deficiency could materially impact the financial statements, and the board of directors may not have enough detailed information to discover the error.

Management Response: Management has become aware of these material adjustments as part of the audit and has readily approved said adjustments upon review. Efforts are currently underway within the organization to ensure that proper controls are established and that a reporting mechanism is established so as to ensure proper oversight. In addition, regular interim statements will be prepared internally, reviewed by management, and presented to the Board of Directors to ensure appropriate account balances and transactions therein. Furthermore, Eide Bailly, LLP, has been retained to provide quarterly reviews over the course of this coming year to monitor the development of accounting processes/systems so as to eliminate this and other audit findings.

2013-B Journal Entries
Material Weakness

Criteria: Generally accepted accounting principles require management of Heber Light & Power to have proper internal controls in place.

Condition: As part of our audit procedures, we reviewed internal controls over Journal Entries, and determined that no formal review or authorization of journal entries is being performed. The mitigating control for journal entries is that the board of directors reviews the monthly accounting records and the financial statements on a monthly basis.

Cause: During our journal entry testing when verifying authorization over each tested item we discovered that no authorization is given when making journal entries.

Effect: The effect of this control deficiency could materially impact the financial statements, and the board of directors may not have enough detailed information to discover the error.

Management Response: Prior to his removal from office, the Company CFO was responsible for the review and authorization of journal entries as part of his administrative responsibilities. Management had relied on the Company CFO and the predecessor auditor to ensure that these entries were appropriately administered. Management recognizes that this review and approval process did not take place during the period under audit. However, current internal practice is operating in such a fashion so as to eliminate this material weakness. Journal entries are now prepared by a member of staff with appropriate supporting documentation. A standard entry format has been adopted and is presented to the Accounting/Finance Manager for approval prior to posting. Upon posting of the entry, the entry cover sheet is then marked to signify posting has occurred and then this journal voucher is saved for future reference and review. The mitigating control is also currently still in effect as each month the Company financial statements as well as warrants are provided for review at the monthly board meeting.

2013-C Segregation of Duties and Controls
Material Weakness

Criteria: Generally accepted accounting principles require management of Heber Light & Power to have proper internal controls in place. An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of an entity's assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

Condition: As part of our audit procedures, we reviewed internal controls that apply to segregation of duties, and determined that the same accounting personnel that have responsibilities over cash receipts also have responsibilities over cash disbursements. Also that same accounting employee reconciles bank statements and generally has overall accounting responsibilities. There were also issues indicated a lack of controls over reconciling inventory, capital assets, and impact fee revenue and expenses.

Cause: During our walkthroughs of internal controls we indicated which employees are responsible for which accounting functions that indicated a lack of segregation of duties on internal controls. During our audit procedures we also noted that there were no controls in place to make sure that inventory, capital assets, and impact fee revenue and expenses were being tracked and recorded properly.

Effect: The limited number of employees at the Company prevents a proper segregation of accounting functions necessary to ensure effective internal control, such as one employee entering all payables and receivables. This lack of segregation of duties and internal controls in place increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both.

Management Response: Management recognizes that this material weakness was in existence during the period under audit. Due to the size of the company and the need for all employees to take on multiple roles, segregation of duties provides a challenge. However, an opportunity exists for the Company to adequately plan and apply duties in 2014 to eliminate this material weakness. Efforts are currently underway to minimize this risk where proper segregation of duties cannot be implemented at the present time. For those areas of key concern, additional review and monitoring is happening so as to ensure appropriate accounting until proper segregation can be applied.

2013-D **Preparation of Financial Statements**
Significant Deficiency

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

Condition: The Company does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: Due to cost and other considerations, the Company has requested we draft the financial statements and related footnotes.

Effect: Although this circumstance is not unusual for an organization of this size, the absence of controls over the preparation of financial statements increases the possibility that a misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the company’s internal control. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the condition because of cost or other considerations.

Management Response: Circumstances in regards to the timing of the replacement of the CFO precluded Heber Light & Power's ability to draft the 2013 Financial Statements and associated Notes. Therefore the scope of the Auditor's engagement for 2013 included the duties associated with drafting the Financial Statements and associated Notes. The company intends on preparing these statements on a go forward basis. In addition, the Company is taking steps to ensure that any existing internal control issues are identified and corrected so as to provide future auditor reliance upon internal controls and prepared financial statements.

2013-1 State Compliance

Criteria: For all entities, Utah state law (*Utah Code, Section 63G-2-108)* requires the GRAMA records officer to complete the annual online training course provided by State Archives on the requirements of GRAMA.

Condition: As a result of our audit procedures, we noted that the records officer had not completed the required GRAMA training, nor had anyone else in the Company.

Cause: Heber Light & Power now is aware of the compliance requirement, but did not know that this training is required on an annual basis.

Effect: The records officer has not had the required training.

Management Response: Management recognizes that this training has not been taken by anybody currently on staff. The Accounting/Finance Manager has been selected and at the present time has registered with the State's Archive Office as the Records Officer. Certification efforts have been be completed prior to the issuance of this Audit Report. The annual re-certification will take place as required.