HEBER LIGHT & POWER COMPANY

FINANCIAL STATEMENTS AND
COMPLIANCE REPORTS

Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Heber Light & Power Company

Report on the Financial Statements

We have audited the accompanying financial statements of Heber Light & Power Company (the Company), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Company's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

o 1329 South 800 East, Orem, UT 84097 // p 801.225.6900 // w squire.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heber Light & Power Company as of December 31, 2018 and 2017 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedules of the Company's proportionate share of the net pension liability (asset) – Utah Retirement Systems, and the schedules of Company's contributions – Utah Retirement Systems as listed in the table of contents as required supplementary information, be presented to supplement the financial statements. Such information, although not a part of the 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 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2019, 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 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.

Squire + Company, PC

Orem, Utah
April 3, 2019

As management of Heber Light & Power Company (the Company), we offer readers of the Company's financial statements this narrative overview and analysis of the financial activities of the Company for the fiscal years ended December 31, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the financial statements and notes.

Financial Highlights

The assets and deferred outflows of resources of the Company exceeded its liabilities and deferred inflows of resources at December 31, 2018 by $33,009,131 (net position). Of this amount $5,156,428 (unrestricted net position) may be used to meet the Company's ongoing obligations to customers, employees, and creditors.

During 2018, the Company's total net position increased by $2,795,442. In 2018, the Company's operating expenses increased $675,155 primarily attributable to an increase in power purchases of $489,953.

The assets and deferred outflows of resources of the Company exceeded its liabilities and deferred inflows of resources at December 31, 2017 by $30,213,689 (net position). Of this amount $3,860,053 (unrestricted net position) may be used to meet the Company's ongoing obligations to customers, employees, and creditors.

During 2017, the Company's total net position increased by $2,664,349. In 2017, the Company's operating expenses increased $1,019,205 primarily attributable to an increase in power purchases of $545,472.

Overview of the Financial Statements

The financial statements consist of three separate statements, which are similar to a private-sector business. The Statements of Net Position present information on all of the Company's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Company is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Company's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees charged, and earned but unused vacation leave).

The Statements of Cash Flows present the activities of the Company on a cash-received and cash-paid basis. These statements show the sources and uses of cash for the fiscal year and reconciles the change in the cash accounts for the Company for that year.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Company's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $33,009,131 at the close of the most recent fiscal year.

A portion of the Company's net position, $24,674,469 (74.8 percent), reflects its net investment in capital assets (e.g., power and generation plants, distribution and metering systems, and machinery, equipment and tools). The Company uses these capital assets to provide services to participating cities and customers; consequently, these assets are not available for future spending. Net position of $3,178,234 (9.6 percent) is restricted for capital projects. The remaining balance of unrestricted net position of $5,156,428 (15.6 percent) may be used to meet the Company's ongoing obligations.

The following tables summarize information presented in the financial statements:

Heber Light & Power Company
NET POSITION
December 31, 2018, 2017, and 2016

	2018	2017	2016
Current assets	$ 11,511,705	$ 11,138,894	$ 9,788,935
Capital assets	35,281,798	34,087,300	32,249,898
Other assets	-	-	110
Total assets	46,793,503	45,226,194	42,038,943
Deferred outflows of resources	1,159,988	1,294,935	1,099,087
Current liabilities	2,098,298	2,598,394	1,408,476
Noncurrent liabilities	12,193,366	13,382,201	13,908,267
Total liabilities	14,291,664	15,980,595	15,316,743
Deferred inflows of resources	652,696	326,845	271,947
Net investment in capital assets	24,674,469	22,989,575	21,402,285
Restricted for capital projects	3,178,234	3,364,061	2,185,658
Unrestricted net position	5,156,428	3,860,053	3,961,397
Net position	$ 33,009,131	$ 30,213,689	$ 27,549,340

Heber Light & Power Company
CHANGE IN NET POSITION
Years Ended December 31, 2018, 2017, and 2016

	2018	2017	2016
Operating revenues	$ 18,862,974	$ 18,273,983	$ 18,421,086
Operating expenses	18,264,741	17,589,586	16,570,381
Operating income	598,233	684,397	1,850,705
Nonoperating revenues (expenses)	766,911	769,614	740,775
Contributions (distributions)	1,430,298	1,210,338	1,339,321
Change in net position	2,795,442	2,664,349	3,930,801
Net position, beginning of year	30,213,689	27,549,340	22,998,086
Effect of prior period restatement	-	-	620,453
Net position, end of year	$ 33,009,131	$ 30,213,689	$ 27,549,340

In comparing 2018 with 2017, the following items should be noted:

During 2018, the Company's total net position increased by $2,795,442. In 2018, the Company's operating expenses increased $675,155 primarily attributable to an increase in power purchases of $489,953 due to customer growth in Heber Valley as well as higher power costs for market energy purchased.

In comparing 2017 with 2016, the following items should be noted:

During 2017, the Company's total net position increased by $2,664,349. In 2017, the Company's operating expenses increased $1,019,205 primarily attributable to an increase in power purchases of $545,472 due to customer growth in Heber Valley as well as higher power costs for market energy purchased.

Capital Asset and Debt Administration

Capital asset additions totaled $3,688,968 and $3,929,231 in 2018 and 2017, respectively. At the end of 2018 and 2017 the Company had $10,607,329 and $11,097,725, respectively, of capital-related debt. Additional information on capital assets and noncurrent liabilities can be found in Note 4 and Note 5, respectively, to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Company prepared its 2019 budget anticipating nominal overall growth. The Company continues to review its rates to ensure appropriate expense recovery and fund for capital projects. Where possible, the goal of the Company is to fund its capital projects without incurring additional debt.

Requests for Information

This financial report is designed to provide a general overview of the Company's finances for all those with an interest in the Company's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Bart Stanley Miller, 31 South 100 West, Heber City, Utah 84032.

FINANCIAL STATEMENTS

HEBER LIGHT & POWER COMPANY
STATEMENTS OF NET POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and investments	$ 4,242,709	$ 3,838,740
Restricted cash and investments	3,178,234	3,364,061
Accounts receivable, net of allowance for uncollectible accounts	1,492,587	1,430,817
Unbilled receivables	916,863	1,053,770
Prepaid expenses	118,563	110,464
Inventory	1,507,984	1,321,457
Other current assets	54,765	19,585
Total current assets	11,511,705	11,138,894
Capital Assets:		
Land, construction in progress, and water rights	2,102,074	2,998,274
Depreciable, net of accumulated depreciation	33,179,724	31,089,026
Net capital assets	35,281,798	34,087,300
Total assets	46,793,503	45,226,194
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	1,159,988	1,294,935
LIABILITIES		
Current Liabilities:		
Accounts payable	199,120	973,824
Accrued expenses	974,622	679,826
Related party payable	152,213	133,181
Current portion of noncurrent liabilities	772,343	811,563
Total current liabilities	2,098,298	2,598,394
Noncurrent Liabilities:		
Revenue bonds payable	7,395,000	7,765,000
Bond premium	92,161	114,249
Capital lease obligations	1,422,540	1,544,657
Compensated absences	530,526	669,380
Early retirement incentive	191,208	226,264
Contract payable	1,205,511	1,190,081
Net pension liability	1,356,420	1,872,570
Total noncurrent liabilities	12,193,366	13,382,201
Total liabilities	14,291,664	15,980,595
DEFERRED INFLOWS OF RESOURCES		
Pension related	652,696	326,845
NET POSITION		
Net investment in capital assets	24,674,469	22,989,575
Restricted for capital projects	3,178,234	3,364,061
Unrestricted	5,156,428	3,860,053
Total net position	$ 33,009,131	$ 30,213,689

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

HEBER LIGHT & POWER COMPANY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues:		
Electricity sales	$ 16,585,205	$ 15,983,103
Electricity sales - Jordanelle	1,891,451	1,762,282
Connection fees	35,195	41,975
Other income	351,123	486,623
Total operating revenues	18,862,974	18,273,983
Operating Expenses:		
Power purchases	7,603,544	7,425,748
Power purchases - Jordanelle	1,750,645	1,438,488
Salaries, wages, and benefits (unallocated)	1,931,909	2,033,988
System maintenance and training	2,806,177	2,670,550
Depreciation	2,082,223	1,908,270
Gas generation	894,387	895,347
Other	269,758	368,329
Vehicle	368,070	250,445
Office	125,924	195,869
Energy rebates	155,642	188,034
Professional services	161,308	87,126
Materials	77,060	75,906
Building	31,477	26,710
Bad debts	6,617	24,776
Total operating expenses	18,264,741	17,589,586
Operating Income	598,233	684,397
Nonoperating Revenues (Expenses):		
Impact fees	1,327,260	1,235,307
Interest income	82,000	46,982
Gain (loss) on sale of capital assets	(143,995)	12,333
Interest expense	(498,354)	(525,008)
Total nonoperating revenues (expenses)	766,911	769,614
Contributions (Distributions):		
Contributed capital	1,730,298	1,435,338
Distributions to owners	(300,000)	(225,000)
Total contributions (distributions)	1,430,298	1,210,338
Change in Net Position	2,795,442	2,664,349
Net Position at Beginning of Year	30,213,689	27,549,340
Net Position at End of Year	$ 33,009,131	$ 30,213,689

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

HEBER LIGHT & POWER COMPANY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Cash received from customers	$ 18,902,931	$ 18,192,801
Cash paid to suppliers	(14,634,136)	(12,006,953)
Cash paid to employees and for benefits	(2,213,443)	(2,564,226)
Net cash provided by operating activities	2,055,352	3,621,622
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(520,442)	(545,953)
Impact fees collected	1,327,260	1,235,307
Purchases of capital assets	(3,688,968)	(3,929,231)
Proceeds from sale of capital assets	16,380	55,298
Principal payments on revenue bonds	(365,000)	(355,000)
Principal payments on capital lease obligations	(118,738)	(115,426)
Contributed capital	1,730,298	1,435,338
Distributions to owners	(300,000)	(225,000)
Net cash used by capital and related financing activities	(1,919,210)	(2,444,667)
Cash Flows from Investing Activities:		
Interest received	82,000	46,982
Net Change in Cash and Cash Equivalents	218,142	1,223,937
Cash and Cash Equivalents at Beginning of Year	7,202,801	5,978,864
Cash and Cash Equivalents at End of Year, displayed as cash and investments and restricted cash and investments on the statements of net position (see Note 2)	$ 7,420,943	$ 7,202,801

Supplemental Data:

A reconciliation of operating income to net cash provided by operating activities follows:

	2018	2017
Operating income	$ 598,233	$ 684,397
Depreciation expense	2,334,095	2,048,863
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable	(61,770)	167,519
Unbilled reveivables	136,907	(230,939)
Prepaids	(8,099)	23,356
Inventory	(186,527)	(70,187)
Other current assets	(35,180)	(17,762)
Accounts payable	(774,704)	895,880
Accrued expenses	294,796	(105,467)
Related party payable	19,032	60,360
Compensated absences	(177,939)	121,480
Early retirement incentive	(43,570)	(52,759)
Contract payable	15,430	27,271
Net pension assets, deferred outflows of resources, liabilities, and deferred inflows of resources	(55,352)	69,610
Net cash provided by operating activities	$ 2,055,352	$ 3,621,622

The Company had no noncash investing or financing activities during the years ended December 31, 2018 and 2017.

Note 1. Summary of Significant Accounting Policies

The accounting policies of Heber Light & Power Company (the Company) conform with accounting principles generally accepted in the United States of America (GAAP) that are applicable to local governmental units. The following is a summary of the more significant policies:

The Reporting Entity – The Company is an interlocal entity serving customers in the Heber Valley in the State of Utah. The Company's purpose is to plan, finance, develop, construct, improve, operate, and maintain projects for the generation, transmission, and distribution of electric power for the benefit of its customers. The Company provides electricity to its owner municipalities of Heber City, Midway City, and the town of Charleston. The Company also provides electricity to the towns of Daniel, Independence, Interlaken, as well as the unincorporated areas of Wasatch County within its service area.

The Company accounts for its operations as an enterprise (proprietary-type) fund; activities are financed and operated in a manner similar to private business enterprises where the intent of the Board is that the costs (expenses, including depreciation) of providing goods or services to members and the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting – The Company's financial statements include statements of net position and statements of revenues, expenses, and changes in net position. These statements are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP; revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Company distinguishes operating revenues and expenses from nonoperating items by whether or not transactions are in connection with the Company's purpose of providing electric power to its customers.

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.

Cash and Cash Equivalents – Cash and cash equivalents include amounts in demand deposits and investments in the Utah Public Treasurers' Investment Fund with original maturities of three months or less from the date acquired by the Company.

Allowance for Doubtful Accounts – An allowance for doubtful accounts of $225,516 and $226,128 has been established at December 31, 2018 and 2017, respectively.

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 placed in service.

Capital Assets – Capital assets are recorded at cost and are defined by the Company as assets with an initial individual cost of more than $1,000. Upon the sale or retirement of capital assets, the related asset costs and accumulated depreciation are removed from the applicable accounts and gain or loss on disposal is recorded. Capital assets, except land and water rights, are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Power and generation plants	10 to 30 years
Distribution and metering systems	10 to 30 years
Building and improvements	5 to 30 years
Office equipment	3 to 15 years
Vehicles	5 to 10 years
Machinery, equipment, and tools	3 to 10 years

Deferred Outflows of Resources – In addition to assets, financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred Inflows of Resources – In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences – Employees earn vacation and sick leave in amounts varying with tenure. Upon separation from employment, each employee shall receive payment for all unused accrued vacation leave.

Upon separation from employment, each eligible employee with at least five years of service may receive payment for up to 75% of unused accrued sick leave up to but not to exceed 190 days. The payment for unused accrued sick leave is calculated as follows:

Payout	Eligibility
100%	Exempt managers
75%	Nonexempt employees hired before July 1, 2011
25%	Nonexempt employees hired after July 1, 2011 with 5 to 10 years of service
50%	Nonexempt employees hired after July 1, 2011 with 11 to 24 years of service
75%	Nonexempt employees hired after July 1, 2011 with 25 or more years of service

Termination Benefits – The Company provides an early retirement incentive to eligible retiring employees. Employees hired prior to July 1, 2011 with a minimum of 30 years of service with the Company are eligible to receive post-employment health care benefits until the retiree reaches age 65. The Company currently has three retirees receiving this benefit. All employees with a minimum of 25 years of service with the Company are eligible to receive post-employment health care benefits for five years or until the retiree reaches age 65, whichever comes first. The Company has one retiree currently receiving this benefit. The Company recognizes the liability and expense in the year in which an employee retires.

In addition, all Company employees who have completed 25 years of service and who meet the eligibility requirements for and will be receiving URS benefits are eligible for the Company to assist the employee in purchasing additional service credits. URS allows the Company to contribute up to 95% of the cost towards purchasing up to 5 years of service credits. Since the cost of this benefit cannot reasonably be estimated, the Company recognizes the liability and expense in the year in which an employee retires. The Company funds this program on a pay-as-you-go basis.

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

Comparative Reclassification – During 2018, the Company began allocating certain employee labor and related benefits to certain cost objectives. For comparative purposes, amounts in the prior year have been reclassified to conform to the current year presentation.

Note 2. Deposits and Investments

The Company complies with the State Money Management Act (*Utah Code* Title 51, Chapter 7) (the Act) and related Rules of the Money Management Council (the Council) in handling its depository and investing transactions. Company funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the Company to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-grade commercial paper, banker's acceptances, repurchase agreements, corporate bonds, money market mutual funds, and obligations of governmental entities within the State of Utah.

The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. The Company considers the rules of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits.

Deposits – At December 31, 2018, the bank balance is $5,224,580, of which $502,597 is covered by federal depository insurance.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Company does not have a formal deposit policy for custodial credit risk. No deposits are collateralized, nor are they required to be by state statute.

Investments – At December 31, 2018 and 2017, the Company had $2,732,966 and $2,671,119, respectively, invested in the PTIF. The PTIF is an external local government investment pool managed by the Utah State Treasurer. The PTIF is authorized and makes investments in accordance with the Act. The Council provides regulatory oversight for the PTIF. Participant accounts with the PTIF are not insured or otherwise guaranteed by the

State of Utah. Participants in the PTIF share proportionally in the income, costs, gains and losses from investment activities. The degree of risk of the PTIF depends upon the underlying portfolio, which primarily consists of money market securities held by the Utah State Treasurer. The portfolio has a weighted average maturity of 90 days or less. The PTIF is not rated. The reported value of the pool is the same as the fair value of the pool shares.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company manages its exposure to interest rate risk by complying with the Act, which requires that the remaining term to maturity of investments to not exceed the period of availability of the funds invested. The Act further limits the remaining term to maturity on all investments in commercial paper and bankers' acceptances to 270 days or less and fixed-income securities to 365 days or less. In addition, variable-rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Company's policy for reducing its exposure to credit risk is to comply with the Act and related rules. The Act and related rules limit investments in commercial paper to a first tier rating and investments in fixed-income and variable-rate securities to a rating of A or higher as rated by Moody's Investors Service or by Standard & Poor's.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Company's policy for managing this risk is to comply with the Act and related rules. The Act limits investments in commercial paper and or corporate obligations to 5% of the Company's total portfolio with a single issuer.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Company's policy for managing this risk is to comply with the Act and related rules.

<u>Restricted Cash and Investments</u> – The Company had $3,057,094 and $3,301,222 in unspent impact fees restricted for capital related projects for the years ended December 31, 2018 and 2017, respectively. The Company also had $121,140 and $62,839 in bond accounts restricted for debt service for the years ended December 31, 2018 and 2017, respectively.

A summary of deposits and investments (shown as cash and investments and restricted cash and investments on the statements of net position) at December 31, 2018 and 2017, is as follows:

	2018	2017
Carrying amount of deposits	$ 4,628,795	$ 4,531,682
Carrying amount of investments	2,792,148	2,671,119
Total cash and investments	$ 7,420,943	$ 7,202,801

Note 3. Fair Value Measurements

The Company categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Company has the following recurring fair value measurements as of December 31, 2018:

- Public Treasurers' Investment Fund position of $2,732,966 is valued at the Company's position in the PTIF multiplied by the published fair value factor (Level 2 inputs).

The Company has the following recurring fair value measurements as of December 31, 2017:

- Public Treasurers' Investment Fund position of $2,671,119 is valued at the Company's position in the PTIF multiplied by the published fair value factor (Level 2 inputs).

Note 4. Capital Assets

Capital asset activity for the year ended December 31, 2018 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	$ 203,045	$ -	$ -	$ 203,045
Water rights	163,475	-	-	163,475
Construction in progress	2,631,754	2,844,884	(3,741,084)	1,735,554
Total capital assets not being depreciated	2,998,274	2,844,884	(3,741,084)	2,102,074
Capital assets being depreciated:				
Power and generation plants	6,937,475	100,475	(251,422)	6,786,528
Distribution and metering systems	44,103,846	3,694,746	(779,786)	47,018,806
Buildings and improvements	2,081,801	24,549	(166,359)	1,939,991
Office equipment	1,441,112	215,826	(52,404)	1,604,534
Vehicles	1,842,713	495,649	-	2,338,362
Machinery, equipment, and tools	2,272,507	53,923	(220,031)	2,106,399
Total capital assets being depreciated	58,679,454	4,585,168	(1,470,002)	61,794,620
Accumulated depreciation	(27,590,428)	(2,334,095)	1,309,627	(28,614,896)
Net capital assets being depreciated	31,089,026	2,251,073	(160,375)	33,179,724
Net capital assets	$ 34,087,300	$ 5,095,957	$ (3,901,459)	$ 35,281,798

During the year ended December 31, 2018, the Company allocated $251,872 of depreciation to Vehicle expense on the statements of revenues, expenses, and changes in net position.

Capital asset activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	$ 203,045	$ -	$ -	$ 203,045
Water rights	163,475	-	-	163,475
Construction in progress	1,269,243	1,362,511	-	2,631,754
Total capital assets not being depreciated	1,635,763	1,362,511	-	2,998,274
Capital assets being depreciated:				
Power and generation plants	6,784,952	154,372	(1,849)	6,937,475
Distribution and metering systems	42,109,156	2,003,035	(8,345)	44,103,846
Buildings and improvements	2,038,443	43,358	-	2,081,801
Office equipment	1,365,537	84,350	(8,775)	1,441,112
Vehicles	1,818,526	265,993	(241,806)	1,842,713
Machinery, equipment, and tools	2,260,794	15,612	(3,899)	2,272,507
Total capital assets being depreciated	56,377,408	2,566,720	(264,674)	58,679,454
Accumulated depreciation	(25,763,274)	(2,048,863)	221,709	(27,590,428)
Net capital assets being depreciated	30,614,134	517,857	(42,965)	31,089,026
Net capital assets	$ 32,249,897	$ 1,880,368	$ (42,965)	$ 34,087,300

During the year ended December 31, 2017, the Company allocated $251,872 of depreciation to Vehicle expense on the statements of revenues, expenses, and changes in net position.

Note 5. Noncurrent Liabilities

Noncurrent liability activity for the year ended December 31, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	$ 8,130,000	$ -	$ (365,000)	$ 7,765,000	$ 370,000
Bond premium	114,249	-	(22,088)	92,161	-
Capital lease obligations	1,663,395	-	(118,738)	1,544,657	122,117
Compensated absences	956,258	362,182	(540,121)	778,319	247,793
Early retirement incentive	267,211	-	(43,570)	223,641	32,433
Contract payable	1,190,081	15,430	-	1,205,511	-
Net pension liability	1,872,570	57,491	(573,641)	1,356,420	-
Total noncurrent liabilities	$ 14,193,764	$ 435,103	$ (1,663,158)	$ 12,965,709	$ 772,343

Noncurrent liability activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	$ 8,485,000	$ -	$ (355,000)	$ 8,130,000	$ 365,000
Bond premium	135,194	-	(20,945)	114,249	-
Capital lease obligations	1,778,821	-	(115,426)	1,663,395	118,738
Compensated absences	898,639	356,205	(298,586)	956,258	286,878
Early retirement incentive	319,970	-	(52,759)	267,211	40,947
Contract payable	1,162,810	27,271	-	1,190,081	-
Net pension liability	1,662,120	787,226	(576,776)	1,872,570	-
Total noncurrent liabilities	$ 14,442,554	$ 1,170,702	$ (1,419,492)	$ 14,193,764	$ 811,563

Revenue Bonds Payable – Revenue bonds payable at December 31, 2018, with their outstanding balances are comprised of the following individual issuances:

Bond Series 2010A - Electric Revenue Refunding Bonds - Original issue of $1,675,000 with interest rates ranging from 3.0% to 5.0%	$ 925,000
Bond Series 2010B - Taxable Electric Revenue Bonds (Issuer Subsidy-Build America Bonds) - Original issue of $4,850,000 with interest rate of 7.0%	4,850,000
Bond Series 2012 - Electric Revenue and Refunding Bonds - Original issue of $3,735,000 with interest rates ranging from 2.0% to 4.0%	1,990,000
	$ 7,765,000

The annual requirements to amortize all revenue bonds outstanding as of December 31, 2018, including interest payments, are listed as follows:

Year Ending December 31,	Principal	Interest	Total
2019	$ 370,000	$ 451,600	$ 821,600
2020	385,000	439,700	824,700
2021	395,000	427,300	822,300
2022	410,000	413,650	823,650
2023	425,000	399,450	824,450
2024-2028	2,170,000	1,678,400	3,848,400
2029-2033	2,460,000	934,140	3,394,140
2034-2035	1,150,000	121,800	1,271,800
Total	$ 7,765,000	$ 4,866,040	$ 12,631,040

As noted above, the Series 2010B revenue bonds have been designated as Build America Bonds. The Company may receive an interest subsidy of up to 35.0 percent of the interest payable on these bonds. The Company received an interest subsidy of $111,220 and $110,732 during the years ended December 31, 2018 and 2017, respectively.

Capital Lease Obligations – The Company acquired equipment totaling $2,000,000 under a capital lease agreement. Lease payments for the years ended December 31, 2018 and 2017 totaled $163,567 and $163,366, respectively. Future minimum payments under capital lease obligations together with their present values as of December 31, 2018 are summarized as follows:

Year Ending December 31,	
2019	$ 163,745
2020	163,900
2021	164,032
2022	164,140
2023	164,222
Thereafter	985,568
Total minimum lease payments	1,805,607
Amount representing interest	(260,950)
Present value of minimum lease payments	$ 1,544,657

Contract Payable – The Company participated in the construction of a hydroelectric power plant and related facilities at the Jordanelle Dam with Central Utah Water Conservancy District (District). The District agreed to finance, construct, own, operate, and maintain the hydroelectric plant as well as issue revenue bonds to provide funding for the Company to finance facilities to deliver the electric energy generated by the plant to the Company's electric system. The Company agreed to purchase the electric power produced by the hydroelectric power plant as well as to construct, own, operate, and maintain facilities to deliver the electric power to the Company's electric system.

The agreement contains provisions for the division of project funds, after payment of costs, to be one-third to the Company and two-thirds to the District. The Company agreed to forego its one-third allocation until the District has been reimbursed for debt service costs incurred on behalf of the Company. At December 31, 2018 and 2017, debt service costs incurred by the District on behalf of the Company totaled $1,205,511 and $1,190,081, respectively.

Note 6. Retirement Plans

Description of plans – Eligible employees of the Company are provided with the following plans through the Utah Retirement Systems (URS) administered by URS:

Defined Benefit Pension Plans (cost-sharing, multiple-employer plans):

- Public Employees Noncontributory Retirement System (Tier 1 Noncontributory System)
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Contributory System)

Defined Contribution Plans (individual account plans):

- Tier 2 Public Employees DC Only System (Tier 2 Define Contribution System)
- 401(k) Plan
- 457 Plan and other individual plans

Company employees qualify for membership in the public employees systems if 1) employment normally requires an average of 20 or more hours per week and the employee receives benefits normally provided by the Company as approved by the Utah State Retirement Board or 2) the employee is an appointed officer whose position is full time as certified by the Company. An employee qualifies for membership in the public safety systems if employment normally requires an average of 2,080 hours of employment per year in a recognized public safety department.

The Tier 2 systems became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the systems, are members of the Tier 2 systems.

The plans are established and governed by the respective sections of Title 49 of the Utah Code. The plans are amended statutorily by the Utah State legislature. Title 49 provides for the administration of the plans under the direction of the Utah State Retirement Board, whose members are appointed by the Governor.

The URS (a component unit of the State of Utah) issues a publicly available financial report that can be obtained at www.urs.org.

Benefits provided – The URS provides retirement, disability, and death benefits to participants in the plans.

Retirement benefits in the defined benefit pension plans are determined from 1.25% to 2.50% of the employee's highest 3 or 5 years of compensation times the employee's years of service depending on the pension plan; benefits are subject to cost-of-living adjustments up to 2.5% or 4.0%, limited to the actual Consumer Price Index increase for the year. Employees are eligible to retire based on years of service and age.

Defined contribution plans are available as supplemental plans to the basic retirement benefits of the defined benefit pension plans and as a primary retirement plan for some Tier 2 participants. Participants in the defined contribution plans are fully vested in employer and employee contributions at the time the contributions are made, except Tier 2 required contributions and associated earnings are vested during the first four years of employment. If an employee terminates prior to the vesting period, employer contributions and associated earnings for that employee are subject to forfeiture. Forfeitures are used to cover a portion of the plan's administrative expenses paid by participants. Benefits depend on amounts contributed to the plans plus investment earnings. Individual accounts are provided for each employee and are available at termination, retirement, death, or unforeseeable emergency.

Contributions – As a condition of participation in the plans, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by the Utah State Retirement Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable), is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability.

For the year ended December 31, 2018, Company required contribution rates for the plans were as follows:

	Company Contribution	Amortization of UAAL *	Company Rates for 401(k) Plan	Totals
Tier 1 Noncontributory System	11.86%	6.61%	-	18.47%
Tier 2 Contributory System **	8.93%	6.61%	1.15%	16.69%
Tier 2 Defined Contribution Plan **	0.08%	6.61%	10.00%	16.69%

* The Company is required to contribute additional amounts based on covered employee payroll to finance the unfunded actuarial accrued liability (UAAL) of the Tier 1 plans.

** Company contribution includes 0.08% of covered employee payroll of the Tier 2 plans for death benefits.

Employees can make contributions to defined contribution plans subject to limitations.

For the year ended December 31, 2018, Company and employee contributions to the plans were as follows:

	Company Contributions *	Employee Contributions
Tier 1 Noncontributory System	$ 458,978	$ -
Tier 2 Contributory System	100,149	-
Tier 2 Defined Contribution Plan	14,683	-
401(k) Plan	75,419	148,196
457 Plan and other individual plans	-	132,862

* Required contributions from Tier 2 plans to finance the unfunded actuarial accrued liability of the Tier 1 plans are reported as contributions to the Tier 2 plans.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2018, the Company reported an asset of zero and a liability of $1,356,420 for its proportionate share of the net pension liability (asset) for the following plans:

	Net Pension Asset	Net Pension Liability
Tier 1 Noncontributory System	$ -	$ 1,351,270
Tier 2 Contributory System	-	5,150
Total	$ -	$ 1,356,420

The net pension liability (asset) was measured as of December 31, 2017, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of January 1, 2017, rolled-forward using generally accepted actuarial procedures. The Company's proportion of the net pension liability (asset) is equal to the ratio of the Company's actual contribution compared to the total of all employer contributions during the plan year. The following presents the Company's proportion (percentage) of the collective net pension liability (asset) at December 31, 2017, and the change in its proportion since the prior measurement date for each plan:

	Proportionate Share	
	2017	Change
Tier 1 Noncontributory System	0.3084177%	0.0177296%
Tier 2 Contributory System	0.0584033%	0.0046450%

For the year ended December 31, 2018, the Company recognized pension expense of $518,290 for the defined benefit pension plans and pension expense of $75,419 for the defined contribution plans. At December 31, 2018, the Company reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension plans from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 30,335	$ 87,518
Changes of assumptions	492,300	32,092
Net difference between projected and actual earnings on pension plan investments	-	478,860
Changes in proportion and differences between District contributions and proportionate share of contributions	63,542	54,226
District contributions subsequent to the measurement date	573,811	-
Total	$ 1,159,988	$ 652,696

The $573,811 reported as deferred outflows of resources related to pensions resulting from Company contributions subsequent to the measurement date of December 31, 2017 will be recognized as a reduction of the net pension liability (asset) in the year ending December 31, 2019. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to defined benefit pension plans will be recognized in pension expense as follows:

Year Ending December 31,	Deferred Outflows (Inflows) of Resources
2019	$ 59,377
2020	108,919
2021	(71,686)
2022	(167,799)
2023	(1,090)
Thereafter	5,760

Actuarial assumptions – The total pension liability (asset) in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 9.75%, average, including inflation
Investment rate of return	6.95%, net of pension plan investment expense, including inflation

Mortality rates were based on actual experience and mortality tables, considering gender, occupation, and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the five-year period ended December 31, 2016. Changes of assumptions that affected measurement of the total pension liability (asset) since the prior measurement date include a decrease in the earnings assumptions from 7.20% to 6.95%, a decrease in the inflation assumption from 2.60% to 2.50%, and increases in life expectancy for most groups based on a new post retirement mortality table using actual experience. Additional changes of assumptions include a decrease to the wage inflation assumption from 3.35% to 3.25% and a decrease to the payroll growth assumption from 3.1% to 3.0%.

The long-term expected rate of return on defined benefit pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class and is applied consistently to each defined benefit pension plan. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity securities	40%	6.15%
Debt securities	20%	0.40%
Real assets	15%	5.75%
Private equity	9%	9.95%
Absolute return	16%	2.85%
Cash and cash equivalents	0%	0.00%
Total	100%	

The 6.95% assumed investment rate of return is comprised of an inflation rate of 2.50% and a real return of 4.45% that is net of investment expense.

Discount rate – The discount rate used to measure the total pension liability (asset) was 6.95%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates, actuarially determined and certified by the Utah State Retirement Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the Company's proportionate share of the net pension liability (asset) to changes in the discount rate – The following presents the Company's proportionate share of the net pension liability (asset) calculated using the discount rate of 6.95%, as well as what the Company's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.95%) or 1-percentage-point higher (7.95%) than the current rate:

	1% Decrease (5.95%)	Discount Rate (6.95%)	1% Increase (7.95%)
District's proportionate share of the net pension liability (asset):			
Tier 1 Noncontributory System	$ 3,654,470	$ 1,351,270	$ (563,725)
Tier 2 Contributory System	60,630	5,150	(37,634)
Total	$ 3,715,100	$ 1,356,420	$ (601,359)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

Payables to the pension plans – At December 31, 2018 and 2017, the Company reported payables of $24,180 and $29,406, respectively, for contributions to defined benefit pension plans and defined contribution plans.

Note 7. Commitments

The Company is a member of the Utah Associated Municipal Power Systems (UAMPS). UAMPS is a separate legal entity formed pursuant to the provisions of the Utah Interlocal Cooperation Act. The Company may choose to participate in projects managed by UAMPS. The Company has participated in various individual projects by entering into power sales and/or transmission agreements. According to the agreements, the Company is obligated to pay their proportionate share of all operation and maintenance expenses and debt service costs for bonds issued by UAMPS. The Company is entitled to receive specified energy output from these projects.

The Company is also a member of Intermountain Power Agency (IPA). IPA is a separate legal entity formed pursuant to the provisions of the Utah Interlocal Cooperation Act. IPA provides financing for the Intermountain Power Project (IPP). The Company is entitled and obligated to purchase a specified amount of electric power produced by IPP. The Company has an agreement with certain California purchasers for the duration of the project. The Company is obligated for operating expenses and repayment of outstanding bonds issued by IPA only in the event of a prolonged power outage and/or failure to perform under the agreement on the part of each of the California purchasers.

Note 8. **Risk Management**

The Company maintains insurance coverage for general, automobile, personal injury, errors and omissions, employee dishonesty, and malpractice liability up to $2,000,000 per occurrence and excess liability coverage up to $20,000,000 through policies administered by a third party. The Company also insures its buildings, including those under construction, and contents against all insurable risks of direct physical loss or damage with the third party. This all-risk insurance coverage provides for repair or replacement of damaged property at a replacement cost basis subject to a deductible of $5,000 per occurrence. Settled claims have not exceeded the Company's insurance coverage for any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

HEBER LIGHT & POWER COMPANY
Schedules of the Company's Proportionate Share of the Net Pension Liability (Asset) – Utah Retirement Systems
Last Four Plan (Calendar)Years

	2017	2016	2015	2014
Tier 1 Noncontributory System:				
Company's proportion of the net pension liability (asset)	0.3084177%	0.2906881%	0.2937394%	0.3191322%
Company's proportionate share of the net pension liability (asset)	$ 1,351,270	$ 1,866,573	$ 1,662,120	$ 1,385,747
Company's covered payroll	$ 2,582,078	$ 2,455,355	$ 2,435,282	$ 2,706,147
Company's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	52.33%	76.02%	68.25%	51.20%
Plan fiduciary net position as a percentage of the total pension liability	91.9%	87.3%	87.8%	90.2%
Tier 2 Contributory System:				
Company's proportion of the net pension liability (asset)	0.0584033%	0.0537583%	0.0502315%	0.0455351%
Company's proportionate share of the net pension liability (asset)	$ 5,150	$ 5,997	$ (110)	$ (1,380)
Company's covered payroll	$ 571,411	$ 440,861	$ 324,592	$ 223,811
Company's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.90%	1.36%	-0.03%	-0.60%
Plan fiduciary net position as a percentage of the total pension liability	97.4%	95.1%	100.2%	103.5%

Note: These schedules are intended to present information for ten years; prior-information is not available. Additional information will be displayed as it becomes available.

HEBER LIGHT & POWER COMPANY
Schedules of Company Contributions – Utah Retirement Systems
Last Four Reporting (Fiscal) Years

	2018	2017	2016	2015
Tier 1 Noncontributory System:				
Contractually required contribution	$ 458,978	$ 476,910	$ 453,504	$ 449,797
Contributions in relation to the contractually required contribution	(458,978)	(476,910)	(453,504)	(449,797)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Company's covered payroll	$ 2,484,994	$ 2,582,078	$ 2,455,355	$ 2,435,282
Contributions as a percentage of covered payroll	18.5%	18.5%	18.5%	18.5%
Tier 2 Contributory System:				
Contractually required contribution	$ 100,149	$ 85,822	$ 65,732	$ 48,437
Contributions in relation to the contractually required contribution	(100,149)	(85,822)	(65,732)	(48,437)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Company's covered payroll	$ 652,889	$ 571,411	$ 440,861	$ 324,592
Contributions as a percentage of covered payroll	15.3%	15.0%	14.9%	14.9%
Tier 2 Defined Contribution System:				
Contractually required contribution	$ 14,683	$ 14,209	$ 13,760	$ 12,176
Contributions in relation to the contractually required contribution	(14,683)	(14,209)	(13,760)	(12,176)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Company's covered payroll	$ 219,483	$ 212,393	$ 205,678	$ 181,635
Contributions as a percentage of covered payroll	6.7%	6.7%	6.7%	6.7%

Note: These schedules are intended to present information for ten years; prior-information is not available. Additional information will be displayed as it becomes available.

A. Schedules of the Company's proportional share of the net pension liability (Asset)-Utah Retirement Systems – These schedules only present information for the 2014 and subsequent measurement periods of the plans; prior-year information is not available.

B. Schedules of Company contributions-Utah Retirement Systems – These schedules only present information for the Company's 2015 and subsequent reporting periods; prior-year information is not available. Contributions as a percentage of covered payroll may be different than the Utah State Retirement Board certified rate due to rounding or other administrative issues. Also rate changes occur each July 1. A portion of required contributions in the Tier 2 plans is used to finance the unfunded actuarial accrued liability in the Tier 1 plans.

C. Utah Retirement Systems schedules – Contributions as a percentage of covered payroll may be different than the Utah State Retirement Board certified rate due to rounding or other administrative issues. Required contributions from Tier 2 plans to finance the unfunded actuarial accrued liability of the Tier 1 plans are reported as contributions to the Tier 2 plans.

D. Changes in assumptions-Utah Retirement Systems

Amounts reported in plan year 2017 reflect the following assumption changes adopted from the January 1, 2017 valuation:

- The assumed investment return decreased from 7.20% to 6.95%.
- The assumed inflation rate decreased from 2.60% to 2.50%.
- The life expectancy assumption increased for most groups.
- The wage inflation assumption decreased from 3.35% to 3.25%.
- The payroll growth assumption decreased from 3.10% to 3.00%.

Amounts reported in plan year 2016 reflect the following assumption changes adopted from the January 1, 2016 valuation:

- The assumed investment return decreased from 7.50% to 7.20%.
- The assumed inflation rate decreased from 2.75% to 2.60%.
- Both the payroll growth and wage inflation assumptions decreased by 0.15%.

Amounts reported in plan year 2015 reflect the following assumption changes adopted from the January 1, 2015 valuation:

- The wage inflation assumption for all employee groups was decreased from 3.75% to 3.50%.
- The rate of salary increases assumption for most groups was modified.
- The payroll growth assumption was decreased from 3.50% to 3.25%.
- The post retirement mortality assumption showed an improvement.
- Minor adjustments to the preretirement mortality assumption were made.
- Certain demographic assumptions were changed that generally resulted in 1) an increase in members anticipated to terminate employment prior to retirement, 2) a slight decrease in members expected to become disabled, and 3) a slight increase in the expected age of retirement.

COMPLIANCE REPORTS

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Independent Auditor's 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*

Board of Directors
Heber Light & Power Company

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 Heber Light & Power Company (the Company), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Company's financial statements, and have issued our report thereon dated April 3, 2019.

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.*

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 Company'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.

Squire + Company, PC

Orem, Utah
April 3, 2019

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Independent Auditor's Report on Compliance
and Report on Internal Control over Compliance
Required by the *State Compliance Audit Guide*

Board of Directors
Heber Light & Power Company

Report on Compliance

We have audited the compliance of Heber Light & Power Company (the Company) with the following applicable state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, for the year ended December 31, 2018:

Budgetary Compliance
Utah Retirement Systems
Open and Public Meetings Act
Public Treasurer's Bond

Management's Responsibility

Management is responsible for compliance with the state compliance requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on the Company's compliance based on our audit of the state 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 the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state compliance requirements referred to above that could have a direct and material effect on a state compliance requirement 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 on compliance for each state compliance requirement referred to above. However, our audit does not provide a legal determination of the Company's compliance with those requirements.

Opinion on Compliance

In our opinion, Heber Light & Power Company complied, in all material respects, with the state compliance requirements referred to above for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the state compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the state compliance requirements referred to above to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance with those state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, 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 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 state compliance requirement 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 state compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Squire + Company, PC

Orem, Utah
April 3, 2019