

Item 7.A

UTICA WATER & POWER AUTHORITY

MANAGEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Jaribu Nelson C.P.A.
Lan T. Kimoto
Jeffrey M. Schill

Board of Directors
Utica Water & Power Authority
Angels Camp, California

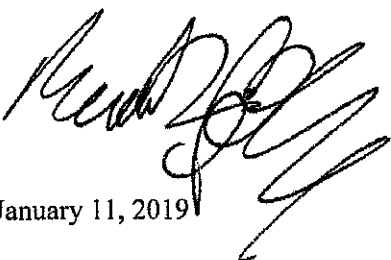
In planning and performing our audit of the basic financial statements of the Utica Water & Power Authority (Authority) for the year ended June 30, 2018, in accordance with generally accepted auditing standards in the United States, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal controls.

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.

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

The memorandum that accompanies this letter summarizes our comments and suggestions concerning other matters. We previously reported on the Authority's internal control in our report January 11, 2019. This letter does not affect our report dated January 11, 2019 on the financial statements of the Utica Water & Power Authority.

This report is intended for the use of management, the Board of Directors, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties. We thank the Authority's staff for its cooperation during our audit.



January 11, 2019

BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

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Ryan P. Jolley C.P.A.
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Board of Directors
Utica Water & Power Authority
Angels Camp, California

We have audited the financial statements of the Utica Water & Power Authority (Authority) for the year ended June 30, 2018, and have issued our report thereon dated January 11, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in the notes to the financial statements.

We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial statements.

Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). We did not identify any significant audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. Our professional standards require a consulting accountant to check with us if a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements. This is to ensure that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

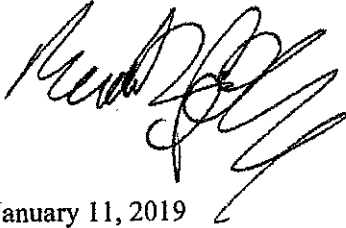
Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings and Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended for the use of management, the Board of Directors, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be "Mendelsohn", written over the date.

January 11, 2019

Item 7.A

UTICA WATER & POWER AUTHORITY

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Utica Water & Power Authority
Angels Camp, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Utica Water & Power Authority (the Authority), which comprise the statement of net position as of June 30, 2018, 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, which collectively comprise the Authority's basic 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 controls 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 basic 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Utica Water & Power Authority as of June 30, 2018, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

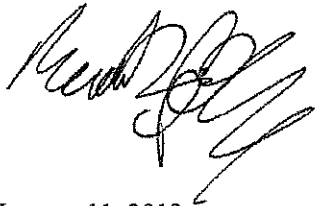
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2019 on our consideration of the Utica Water & Power Authority'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 Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to be 'Meredith J. [unclear]', written in a cursive style.

January 11, 2019

**Utica Water & Power Authority
Management's Discussion & Analysis
Year Ended June 30, 2018**

The Governmental Accounting Standards Board Statement No. 34 (GASB 34) requires that management prepare a Management's Discussion and Analysis (MD&A) section as a component of the audited financial statements. *"MD&A should provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions, or conditions. MD&A should include comparisons of the current year to the prior year...It should provide an analysis of the Authority's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. In addition, it should provide an analysis of significant changes that occur in funds and significant variances. It should also describe capital asset and long-term debt activity during the year. MD&A should conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations."*

This section of the Utica Water & Power Authority's (Authority) Audited Financial Statements provides management's discussion and analysis of the Authority's financial performance for the period ending June 30, 2018. The MD&A is intended to serve as an introduction to the Authority's basic financial statements. Readers are encouraged to consider the information presented here as complementary to the information contained in the accompanying financial statements.

The Authority is a proprietary entity and uses enterprise fund accounting to report its activities for financial statement purposes. Proprietary funds are reported using the accrual basis of accounting and account for activities in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed primarily through the sale of electricity and Renewable Energy Credits ("RECs"), as well as user rates, fees, and charges.

Overview of the Financial Statements

The financial statements consist of the following two parts: Management's Discussion and Analysis and the Basic Financial Statements. The Financial Statements include notes which explain in detail some of the information included in the financial schedules.

The Statement of Net Position presents information about the nature and amount of the Authority's assets, liabilities and net position. Increases and decreases in net position over time may help the reader determine whether the financial position of the Authority is improving or deteriorating.

The Authority's revenues and expenses are presented in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations and can be used to determine its profitability, credit worthiness, and whether the Authority has successfully recovered all of its current year costs through its operating revenues.

The Statement of Cash Flows provides information about the Authority's cash receipts, cash payments, and resulting net changes in cash. Transactions are classified as operating, non-capital financing, capital and related financing and investing activities.

Financial Highlights

The Authority's financial results are impacted by revenue from electricity and RECs that are used to fund operating costs of the Authority and to fund or finance capital improvement activities. Following are some the key highlights for the fiscal year ended June 30, 2018 in comparison to the prior fiscal year. A more detailed narrative analysis follows the listing.

- Total Assets decreased by \$4 thousand
- Total Liabilities increased \$9 thousand
- Net Position decreased by \$13 thousand
- Operating Revenues increased by \$299 thousand
- Operating Expenses increased by \$476 thousand
- Non-operating Revenues increased by \$27 thousand
- Non-operating Expenses decreased by \$4 hundred

Discussion of Key Changes from Prior Year

This section provides an analysis of the changes that occurred in Assets and Liabilities during the current and previous fiscal year. A table summarizing these amounts is presented below.

		Fiscal Year 2017-2018	Fiscal Year 2016-2017	Dollar Change	Total Percent Change
Assets					
	Current assets	\$ 858,832	\$ 757,728	\$ 101,104	13.35%
	Non-current assets	1,454,195	1,559,334	(105,139)	-6.75%
	Total Assets:	2,313,027	2,317,062	(4,035)	-.18%
Liabilities					
	Current liabilities	68,506	54,057	14,449	26.73%
	Non-current liabilities	59,444	64,413	(4,969)	-7.72%
	Total Liabilities:	127,950	118,470	9,480	8.01%
Net Position					
	Net investment in				
	capital assets	1,150,913	1,261,507	(110,594)	-8.77%
	Restricted	86,529	86,520	9	.01%
	Unrestricted	947,635	850,565	97,070	11.42%
	Total Net Position:	\$ 2,185,077	\$ 2,198,592	\$ (13,515)	-.62%

Analysis of the significant changes shown above is presented below.

Current Assets: The \$101 thousand increase in current assets represents an increase in cash and investments as detailed in the Statement of Cash Flows.

Non-current Assets: A \$105 thousand decrease in non-current assets represents a decrease in capital assets due to depreciation.

Liabilities: Details of the Authority's long-term debt issued are discussed in Note 4 accompanying the Financial Statements. A \$9 thousand increase in liabilities is primarily due to retirement contributions accrued to be contributed to the Authority's new retirement plan created in fiscal year 2019.

Total Net Position: The decrease of \$13 thousand in Net Position over the previous year is detailed as follows:

Operating and Non-operating Financial Highlights

The table below compares the operating and non-operating revenue and expenses for the Authority for the current and prior fiscal years.

		Fiscal Year 2017-18	Fiscal Year 2016-17	Dollar Change	Total Percent Change
Operating					
	Operating Revenues	\$ 1,394,970	\$ 1,096,100	\$ 298,870	27.27%
	Operating Expenses				
	Depreciation Expense	(144,407)	(129,315)	15,092	11.67%
	Other Operating Expenses	(1,718,713)	(1,257,716)	460,997	36.66%
	Net Operating (Loss)	(468,150)	(290,931)	177,219	60.92%
Non-Operating					
	Revenues	75,065	47,710	27,355	57.34%
	Expenses	(10,297)	(10,663)	(366)	-3.44%
	Non-operating, net	64,768	37,047	27,721	74.83%
	Capital Contributions	389,867	561,340	(171,473)	-30.55%
	Change in net position	(13,515)	307,456	(320,971)	-104.40%
	Beginning net position	2,198,592	1,891,136	307,456	16.26%
	Ending net position	\$ 2,185,077	\$ 2,198,592	\$ (13,515)	-.62%

REVENUES

Operating Revenue: Operating revenues increased by \$299 thousand. The increase in revenues was a result of increased power generation and increase in power generation rates.

EXPENSES

Depreciation expense: Depreciation expense is systematically recorded to match the timing of the expense of an asset with its useful life. The Authority depreciates its capital assets according to the following established life periods:

Facilities	30 years
Equipment	5 - 10 years

Depreciation expense for fiscal year 2017-18 is \$144 thousand, which remained consistent with the prior year.

Other Operating Expenses: As shown above, there was an overall increase in other operating expenses of \$461 thousand primarily due to tree removal expenses and an increase in license compliance and dam safety costs during the current fiscal year.

NON-OPERATING REVENUES (EXPENSES)

Non-operating Revenue increased by \$27 thousand compared to the prior year as the current year included approximately \$15 thousand from refunds and a sale of a vehicle.

Non-Operating Expenses decreased by \$4 hundred compared to the prior year due to a decrease in interest expense.

ECONOMIC CONDITION AND OUTLOOK

Despite progress in increasing hydropower revenue, UWPA revenue fell short of expenses in FY 17/18 for the sixth consecutive year. On the positive side, UWPA secured a 20-year ReMAT contract for the Angels Powerhouse in August, 2017, which more than doubled the price per megawatt from the previous contract. The FY 16/17 revenue from the Angels Powerhouse under the old contract was approximately \$300,000. The FY 17/18 revenue was approximately \$700,000 with roughly the same amount of water available for generation over that time. ReMAT makes a big difference.

UWPA anticipated securing a ReMAT contract for the Murphys Powerhouse in late 2017, as well. Unfortunately, a federal lawsuit resulted in an injunction that suspended implementation of the ReMAT program. There is hope that the injunction will be lifted before the end of 2019, however, significant uncertainty remains. A ReMAT contract for the Murphys Powerhouse would likely eliminate budget deficits in the two wettest of our six water years. The table below shows revenue and expenditure projections with and without the second ReMAT contract.

Water Year ¹	WY1	WY2	WY3	WY4	WY5	WY6
Projected Annual Revenue with Current PPAs	\$1,480,522	\$1,324,822	\$1,170,954	\$945,379	\$801,267	\$710,620
Projected Annual Revenue with ReMAT PPA for Both Powerhouses	\$2,411,857	\$2,150,502	\$1,892,359	\$1,528,212	\$1,286,399	\$1,085,899
Projected Annual Expenditures ²	\$2,030,646	\$2,030,646	\$2,030,646	\$2,030,646	\$2,030,646	\$2,030,646
Difference with Current PPAs	(\$550,124)	(705,824)	(\$859,692)	(\$1,085,267)	(\$1,229,379)	(\$1,320,026)
Difference with ReMAT PPA for Both Powerhouses	\$381,211	\$119,856	(\$138,287)	(\$502,434)	(\$744,247)	(\$944,747)

As expenses increase over time, even the second ReMAT contract would not be enough to keep UWPA from budget deficits. UWPA needs to continue seeking additional sources of revenue, such as new small hydro projects and grants for infrastructure projects.

¹ The average water year since 2001 is "2.1".

² Expenditures based on average of FY 17/18 and FY18/19. Inflation and a detailed Capital Improvement Plan would need to be added for future year projections.

On the expenditures side, UWPA's costs have gone up over the last several years as we continue to address deferred maintenance projects, upkeep of aging infrastructure, and increases in regulatory compliance costs. The rate of deterioration of the water conveyance system is increasing and may be beyond the capacity of UWPA's very capable in-house staff to keep up with. UWPA will consider applying for grants or low interest loans for contractors to replace sections of flume and canal.

UWPA recently completed a significant upgrade of outdated relays and switchgear at the Angels Powerhouse and both powerhouses are in good operating condition. Having said that, similar upgrades need to be made at the Murphys Powerhouse, as well as several other repair and replacement projects (two new needles, cooling water pipe replacement, etc). These projects should be completed within the next 2-3 years and if properly planned should not result in unanticipated budget impacts.

Overall, UWPA continues to rely on the member agency contributions to make up for budget shortfalls and likely will continue to do so for the foreseeable future. UPUD has already adopted a rate increase specifically for UWPA expenses and Angels Camp is in the process of doing the same. Unless UWPA can find ways to continue to increase revenue, it is the member agencies' water rate-payers who provide the financial security for UWPA.

Requests for Information

This financial report is designed to provide citizens, customers, taxpayers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need any additional information contact the Authority at (209) 736-9419 or 1168 Booster Way P.O. Box 358, Angels Camp, CA 95222.

UTICA WATER & POWER AUTHORITY

STATEMENT OF NET POSITION JUNE 30, 2018

ASSETS

Current assets

Cash and investments	\$ 675,312
Accounts receivable	157,641
Interest receivable	1,922
Prepaid expenses	<u>23,957</u>
Total current assets	<u>858,832</u>

Non-current and restricted assets

Restricted cash and investments	86,529
Other Assets	
Licenses - net of amortization	156,392
Deposits	45,000
Capital Assets	
Property, plant, and equipment - net of accumulated depreciation	<u>1,166,274</u>
Total non-current assets	<u>1,454,195</u>

Total assets 2,313,027

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	63,658
Current portion of long-term debt	<u>4,848</u>
Total current liabilities	<u>68,506</u>

Non-current liabilities

Compensated absences	48,931
Long-term debt	<u>10,513</u>
Total non-current liabilities	<u>59,444</u>

Total liabilities 127,950

NET POSITION

Net investment in capital assets	1,150,913
Restricted for capital improvements	86,529
Unrestricted	<u>947,635</u>
Total net position	<u>\$ 2,185,077</u>

UTICA WATER & POWER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2018

Operating Revenue	
Power revenue	\$ 1,230,933
Water revenue	164,037
Total operating revenue	<u>1,394,970</u>
Operating Expense	
Plant operations and maintenance	562,838
Administration	253,553
Repairs and maintenance	178,118
Professional services	61,766
Fees	80,627
License compliance	35,107
Materials, supplies and services	29,121
Outside services	402,766
Insurance	34,719
Vehicle expense	23,204
Communications	33,872
Utilities	23,022
Depreciation	144,407
Total operating expense	<u>1,863,120</u>
Operating income/(loss)	<u>(468,150)</u>
Non-operating Revenue/(Expense)	
Rents and leases	38,625
Interest income	4,385
Other income	32,055
Amortization	(9,831)
Interest expense	(466)
Total non-operating revenue/(expense)	<u>64,768</u>
Net income/(loss) before capital contributions	(403,382)
Capital Contributions	
Capital grants	219,867
Contributed capital	170,000
Total capital contributions	<u>389,867</u>
Change in Net Position	(13,515)
Net Position	
Beginning of year	<u>2,198,592</u>
End of year	<u>\$ 2,185,077</u>

See accompanying notes.

UTICA WATER & POWER AUTHORITY

STATEMENT OF CASH FLOWS YEARS ENDED JUNE 30, 2018

Operating Activities

Receipts from customers and users	\$ 1,439,418
Payments to suppliers for goods and services	(887,998)
Payments to employees for services	(816,512)
Net cash used by operating activities	<u>(265,092)</u>

Non-capital Financing Activities

Receipts from facilities charges	38,625
Payments for deposits	(20,000)
Other income	32,055
Net cash provided by non-capital financing activities	<u>50,680</u>

Capital and Related Financing Activities

Purchase of property, plant and equipment	(29,090)
Principal paid on long-term debt	(4,723)
Receipts from other governments - capital grants	219,867
Receipts from member agencies - contributed capital	170,000
Interest paid on long-term debt	(466)
Net cash provided by capital and related financing activities	<u>355,588</u>

Investing Activities

Interest received	<u>2,959</u>
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Net Increase in Cash and Investments

144,135

Cash and Investments

Beginning of year	<u>617,706</u>
End of year	<u>\$ 761,841</u>

Cash Flows from Operating Activities

Operating income (loss)	\$ (468,150)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	144,407
(Increase) Decrease in accounts receivable	42,531
(Increase) Decrease in prepaid expenses	1,917
Increase (Decrease) in payables and accrued expenses	14,324
Increase (Decrease) in compensated absences	(121)

Net Cash Used by Operating Activities

\$ (265,092)

UTICA WATER & POWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Utica Water & Power Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Authority are described below:

Reporting Entity

The Authority was established in December 1995 and is a joint power authority made up of two local agencies in Calaveras County, the City of Angels and the Union Public Utility District. It includes two FERC Projects, each comprised of a hydro-electric power plant and water delivery systems, including canals, flumes, penstocks and reservoirs. The Authority was formed “to help assure that there will be adequate water available from the Projects for the protection of all beneficial public uses in Calaveras County...” The projects are funded primarily by the sale of power produced by the Utica and Angels Hydro-Electric plants.

Basis of Accounting

The Authority accounts for its operations in enterprise funds using the economic resources measurement focus and the accrual basis of accounting. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific government activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority’s principal ongoing operations. The principal operating revenues of the Authority are from the sale of electricity and RECs. Operating expenses for the Authority include the cost of hydroelectric plant operation, water conveyance system operation, power and water sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Financial Statement Amounts

Cash and Investments - Cash and investments represent the Authority's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund. Investments are stated at fair value.

UTICA WATER & POWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Accounts Receivable – Billings for power and REC sales are sent monthly and are reflected on the accrual basis of accounting. Billings for water sales are sent bi-annually to irrigation customers and only as-needed for other water sales. Water billings are also reflected on the accrual basis of accounting.

Capital Assets – Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Capital assets in service are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Facilities	30
Equipment	5 - 10

Compensated Absences – The Authority allows employees to accumulate unused paid time off to a maximum of 384 hours. Upon termination, accumulated paid time off that was not taken will be paid to the employee.

Vested or accumulated paid time off leave that is expected to be paid with expendable available financial resources is recorded as an expense and liability as the benefits accrue.

Long-Term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the Proprietary Fund Statement of Net Position. Debt principal payments are reported as decreases in the balance of the liability on the Statement of Net Position.

UTICA WATER & POWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Position/Fund Equity - The fund financial statements utilize a net position presentation. Net position are categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the Authority not restricted for any project or other purpose.

Revenues and Expenses – The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority’s principal ongoing operations. The principle operating revenues of the Authority are charges to customers for sales of electricity, RECs, and water. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Note 2 – Cash and Investments

Cash and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 675,312
Restricted Cash and Investments	86,529
Total Cash and Investments	<u>\$ 761,841</u>

Cash and investments as of June 30, 2018 consist of the following:

Cash on hand	\$ 207
Deposits with financial institutions	242,603
Local Agency Investment Fund	<u>519,031</u>
Total Cash and Investments	<u>\$ 761,841</u>

UTICA WATER & POWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 2 – Cash and Investments (continued)

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

LAIF is valued based on the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (Level 2 input).

Investments Authorized by the Authority's Investment Policy

The Authority's investment policy only authorizes investment in the local government investment pool administered by the State of California (LAIF). The Authority's investment policy does not contain any specific provisions intended to limit the Authority's exposure to interest rate risk, credit risk, and concentration of credit risk.

UTICA WATER & POWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 2 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	180 days
Commerical Paper	270 days
Money Market Mutual Funds	N/A
Investment Contracts	30 years

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2018, the Authority had the following investments.

<u>Investment Type</u>		<u>Maturity Date</u>
Local Agency Investment Fund (LAIF)	<u>\$ 519,031</u>	N/A
Total	<u>\$ 519,031</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments.

UTICA WATER & POWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 2 – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool - The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

UTICA WATER & POWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 3 – Property, Plant and Equipment

The detail of property, plant and equipment at June 30, 2018, is as follows:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets				
Utility system - infrastructure	\$ 3,607,669	\$ -	\$ -	\$ 3,607,669
Equipment and vehicles	459,062	29,090	(12,284)	475,868
Total capital assets, being depreciated	<u>4,066,731</u>	<u>29,090</u>	<u>(12,284)</u>	<u>4,083,537</u>
Less accumulated depreciation for				
Utility system - infrastructure	(2,469,989)	(117,651)	-	(2,587,640)
Equipment and vehicles	(315,151)	(26,756)	12,284	(329,623)
Total accumulated depreciation	<u>(2,785,140)</u>	<u>(144,407)</u>	<u>12,284</u>	<u>(2,917,263)</u>
Total capital assets, net	<u>\$ 1,281,591</u>	<u>\$ (115,317)</u>	<u>\$ -</u>	<u>\$ 1,166,274</u>
Total capital assets, net	<u>\$ 1,281,591</u>	<u>\$ (115,317)</u>	<u>\$ -</u>	<u>\$ 1,166,274</u>

Note 4 – Long-Term Debt

Long-term debt at June 30, 2018, consisted of the following:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Current Portion
Capital Leases					
US Bank Capital Lease	\$ 20,084	\$ -	\$ (4,723)	\$ 15,361	\$ 4,848

US Bank Capital Lease - On July 21, 2016, the Authority obtained a capital lease from US Bank for \$24,308. The lease requires monthly payments of \$432 at 2.60% for a period of 5 years, maturing on July 1, 2022.

The future debt service requirements for the capital lease is as follows:

Years ending June 30,	Principal	Interest	Total
2019	\$ 4,848	\$ 342	\$ 5,190
2020	4,975	215	5,190
2021	5,106	84	5,190
2022	432	-	432
	<u>\$ 15,361</u>	<u>\$ 641</u>	<u>\$ 16,002</u>

UTICA WATER & POWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 5 – Retirement Plan

The Authority has established a SIMPLE IRA plan eligible to all employees. All contributions made under the Plan are fully vested and nonforfeitable. The Authority has elected to make a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the calendar year.

Note 6 – Compensated Absences

All earned vacation hours, holiday, and compensating time is payable upon termination or retirement and are accrued as compensated absences. Compensated absences liability is calculated in accordance with GASB Statement No. 16.

Note 7 – Risk Management

The Authority is a member of the ACWA/Joint Powers Insurance Authority (JPIA). JPIA covers general liability claims. Commercial insurance is purchased for excess liability, property and employee dishonesty coverage. The Authority has no deductible for the general liability coverage. Workers' compensation is provided by State Fund.

Claims and judgements, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the Authority has coverage for such claims.

Note 8 – Subsequent Events

The Authority evaluated subsequent events for recognition and disclosure through January 11, 2019, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2018, that required recognition or disclosure in such financial statements.

**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***

To the Board of Directors
Utica Water & Power Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Utica Water & Power Authority (Authority), which comprise the statement of net position as of June 30, 2018, 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, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 11, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority'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.

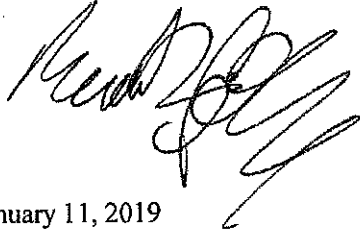
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in black ink, appearing to be 'Kevin J. [unclear]', written in a cursive style.

January 11, 2019