UTICA WATER & POWER AUTHORITY

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2021

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CERTIFIED PUBLIC ACCOUNTANTS

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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, 2021, 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 nor 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, 2021, 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.

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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 October 22, 2021 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.

October 22, 2021

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, 2021. 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 two parts: Management's Discussion and Analysis and the Basic Financial Statements. The Financial Statements include notes that 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 finanical results are impacted by revenue from electricity and Renewable Energy Credits (RECs) that are used to fund operating costs of the Authority and to fund or finance capital improvement activities. Below are some the key highlights for the fiscal year ended June 30, 2021 in comparison to the prior fiscal year. A more detailed narrative analysis follows the listing.

- Total Assets increased by $703,242
- Total Liabilities increased $257,769
- Net Position increased by $445,473
- Operating Revenues increased by $21,687
- Operating Expenses increased by $70,850
- Non-operating Revenues increased by $2,785
- Non-operating Expenses decreased by $370
- Capital grants and contributions increased by $499,762

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.

Table A-1
Condensed Statement of Net Position

	Fiscal Year 2020-2021	Fiscal Year 2019-2020	Dollar Change	Total Percent Change
Assets				
Current assets	$ 2,075,136	$ 1,212,724	$ 862,412	71.11%
Non-current assets	1,044,503	1,203,673	(159,170)	-13.22%
Total Assets:	3,119,639	2,416,397	703,242	29.10%
Liabilities				
Current liabilities	296,706	50,962	245,744	482.21%
Non-current liabilities	83,117	71,092	12,025	16.91%
Total Liabilities:	379,823	122,054	257,769	211.19%
Net Position				
Net investment in capital assets	887,604	950,387	(62,783)	-6.61%
Restricted	-	86,556	(86,556)	-100.00%
Unrestricted	1,852,212	1,257,400	594,812	47.30%
Total Net Position:	$ 2,739,816	$ 2,294,343	$ 445,473	19.42%

Analysis of the significant changes shown above is presented below.

Current Assets: The $862,412 increase in current assets represents an increase, primarily, in cash and investments as detailed in the Statement of Cash Flows.

Non-current Assets: A $159,170 decrease in non-current assets represents a decrease, primarily, in capital assets due to depreciation.

Liabilities: A $257,769 increase in liabilities is primarily due to receipt of an advanced capital grant.

Total Net Position: The increase of $445,473 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.

Table A-2
Condensed Statement of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2020-21	Fiscal Year 2019-20	Dollar Change	Total Percent Change
Operating				
Operating Revenues	$ 1,447,543	$ 1,425,856	$ 21,687	1.52%
Operating Expenses				
Depreciation Expense	(160,060)	(145,630)	(14,430)	9.91%
Other Operating Expenses	(1,756,900)	(1,678,793)	(78,107)	4.65%
Net Operating (Loss)	(469,417)	(398,567)	(70,850)	17.78%
Non-Operating				
Revenues	70,921	68,136	2,785	4.09%
Expenses	(9,831)	(10,201)	370	-3.63%
Non-operating, net	61,090	57,935	3,155	5.45%
Capital Grants	43,800	74,038	(30,238)	100.00%
Capital Contributions	810,000	280,000	530,000	189.29%
Change in net position	445,473	13,406	432,067	3222.94%
Beginning net position	2,294,343	2,280,937	13,406	0.59%
Ending net position	$ 2,739,816	$ 2,294,343	$ 445,473	19.42%

REVENUES

Operating Revenue: Operating revenues increased by $21,687. The increase in revenues was a mainly due to increase in water sales.

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 FY 2020-21 is $160,060, which remained consistent with the prior year.

Other Operating Expenses: As shown above, there was an overall increase in other operating expenses of $78,107 primarily due to increases in wages, benefits, and burden, professional services, and contingency.

NON-OPERATING REVENUES (EXPENSES)

Non-operating Revenue increased by $2,785, which was consistent with prior year, the current year included $810,000 in capital contributions and $43,800 in capital grants.

Non-Operating Expenses decreased by $370 due to no interest expense in the current year.

ECONOMIC CONDITION AND OUTLOOK

The Utica Water and Power Authority (Utica) has continued pursuing a ReMAT contract for the Murphys Powerhouse throughout 2020 and 2021. This contract would likely have been secured several years ago, but a federal lawsuit resulted in an injunction in late 2017 that suspended implementation of the ReMAT program. After nearly three years, the California Public Utilities Commission (CPUC) approved a plan to reopen the ReMAT program in October 2020. Based on the revised power purchase agreement numbers, a ReMAT contract for the Murphys Powerhouse is estimated to increase power sale revenues at MPH by between $200,000 and $450,000, depending on the water year. After months of negotiating, on September 16, 2020, Pacific Gas and Electric signed a power purchase agreement (PPA) with Utica for the Murphys Powerhouse. The commercial operation date (COD) target is December 1, 2021. While ReMAT has the potential to bring in substantially more power revenues for Utica, it will not completely solve the budget deficits Utica has faced for the past several years.

With annual operating expenses increasing each year, the adoption of a Capital Improvement Plan (CIP) and, a short- and long-term Reserve Policy, even if Utica is successful with a ReMAT contract for Murphys Powerhouse, it will not generate enough revenue to ensure Utica does not face financial shortfalls. Utica must still rely on financial contributions from its Joint Power Authority (JPA) member agencies – City of Angels and Union Public Utility District – while also seeking additional sources of revenue, such as new small hydro projects and grants to help fund planning, design and construction of infrastructure projects to benefit the water conveyance and hydroelectric systems.

Staff performed a detailed review of all Authority expenses in FY 2020-21 and identified more than $30,000 in annual savings by canceling unneeded services and changing to more efficient and effective practices. Staff will continue to explore strategies to cut costs and work more efficiently and effectively in the coming year.

Adding to the challenges the Authority is facing is the fact that planning, materials, and operating costs have continued to rise over the past year, as the Authority continues to address deferred maintenance projects, upkeep of aging infrastructure, and an increased regulatory compliance burden. The deterioration of the water conveyance system is increasing at an alarming rate and is testing the capacity of UWPA's very capable in-house conveyance staff. A labor shortage caused by the closing of the California Department of Corrections and Rehabilitation (CDCR) "Baseline Camp" and downsizing of the CDCR "Vallecito Camp" has vastly reduced the number of work crews managed by Cal Fire that Utica can use for construction and vegetation clearing projects. This labor shortage has led to increased costs and reduced the size and scale of projects that can be accomplished throughout the year. UWPA is actively applying for grants and considering low-interest loans to fund planning, design and construction of a more fire-resistant system, with special emphasis on wooden flumes that are vulnerable to wildfire.

In addition to the cost of conveying water, maintaining the Authority's two, aging hydroelectric generation power plants continues to be a challenge. While both powerhouses are maintained regularly and in good operating condition, there are large capital projects that must be done in the coming years to avoid catastrophic failure. The protection relay system at the Angels Powerhouse was upgraded within the past few years, but the Murphys Powerhouse also need a substantial protection relay upgrade, which will cost several hundred thousand dollars. Additionally, the pipe wall of the Angels Penstock is thinning and Utica is currently evaluating the alternatives for repairs or replacement, which could cost millions. These projects should begin within the next few years to avoid a major failure.

In order to pass a balanced budget each year, Utica continues to rely on the member agency contributions and likely will continue to do so for the foreseeable future. Fortunately, the member agencies have been supportive of Utica's needs and both UPUD and COA have made funding commitments through FY 2021-2022. The City of Angels adopted a rate increase, which has built-in flexibility to increase rates during dry water years, when Utica's power sales are down, due to decreased water flows. UPUD is in the process of performing a water rate study, which is expected to be complete by January 2022. UPUD plans to hold a Proposition 218 proceeding, which could lead to a rate increase that could meet Utica's long-term funding needs.

Looking forward, the management continues to believe that a combination of increased power revenues through ReMAT, the continuation of a successful grant program, and the solidification of long-term funding commitments from JPA members will lead to the financial stability that Utica needs to be successful in future years.

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 anyone has questions about this report or needs any additional information, please contact UWPA at admin@uticapower.net, (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, 2021

ASSETS	
Current assets	
Cash and investments	$ 1,869,564
Accounts receivable	148,700
Interest receivable	905
Prepaid expenses	55,967
Total current assets	2,075,136
Non-current and restricted assets	
Other Assets	
Licenses - net of amortization	126,899
Deposits	30,000
Capital Assets	
Property, plant, and equipment - net of accumulated depreciation	887,604
Total non-current assets	1,044,503
Total assets	3,119,639
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	30,506
Unearned revenue	266,200
Total current liabilities	296,706
Non-current liabilities	
Compensated absences	83,117
Total non-current liabilities	83,117
Total liabilities	379,823
NET POSITION	
Net investment in capital assets	887,604
Unrestricted	1,852,212
Total net position	$ 2,739,816

UTICA WATER & POWER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021

Operating Revenue	
Power revenue	$ 1,129,917
Water revenue	317,626
Total operating revenue	1,447,543
Operating Expense	
Wages, benefits, and burden	978,080
Repairs and maintenance	77,259
Professional services	209,646
Fees	42,542
Materials, supplies and services	59,480
Outside services	205,611
Insurance	43,625
Communications	32,689
Utilities	28,315
Memberships	11,599
Travel and training	5,379
Other	62,675
Depreciation	160,060
Total operating expense	1,916,960
Operating income/(loss)	(469,417)
Non-operating Revenue/(Expense)	
Rents and leases	46,609
Interest income	4,901
Other income	19,411
Amortization	(9,831)
Total non-operating revenue/(expense)	61,090
Net income/(loss) before capital contributions	(408,327)
Capital Contributions	
Capital grants	43,800
Contributed capital	810,000
Total capital contributions	853,800
Change in Net Position	445,473
Net Position	
Beginning of year	2,294,343
End of year	$ 2,739,816

UTICA WATER & POWER AUTHORITY

STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2021

Operating Activities	
Receipts from customers and users	$ 1,472,069
Payments to suppliers for goods and services	(799,276)
Payments to employees for services	(966,055)
Net cash used by operating activities	(293,262)
Non-capital Financing Activities	
Receipts from facilities charges	46,609
Other income	19,411
Net cash provided by non-capital financing activities	66,020
Capital and Related Financing Activities	
Purchase of property, plant and equipment	(97,277)
Receipts from other governments - capital grants	310,000
Receipts from member agencies - contributed capital	810,000
Net cash provided by capital and related financing activities	1,022,723
Investing Activities	
Interest received	6,538
Net Increase in Cash and Investments	802,019
Cash and Investments	
Beginning of year	1,067,545
End of year	$ 1,869,564
Cash Flows from Operating Activities	
Operating income (loss)	$ (469,417)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	160,060
(Increase) Decrease in accounts receivable	45,662
(Increase) Decrease in prepaid expenses	(21,136)
Increase (Decrease) in account payables and accrued expenses	(20,456)
Increase (Decrease) in compensated absences	12,025
Net Cash Used by Operating Activities	$ (293,262)

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.

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:

	Years
Facilities	30
Equipment	5 - 10

Compensated Absences – The Authority allows employees to accumulate unused paid time off to a maximum of 520 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.

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, 2021, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	$ 1,869,564
Total Cash and Investments	$ 1,869,564

Cash and investments as of June 30, 2021 consist of the following:

Cash on hand	$ 275
Deposits with financial institutions	266,029
Local Agency Investment Fund	1,603,260
Total Cash and Investments	$ 1,869,564

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.

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.

Authorized Investment Type	Maximum Maturity
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, 2021, the Authority had the following investments.

Investment Type		Maturity Date
Local Agency Investment Fund (LAIF)	$ 1,603,260	N/A
Total	$ 1,603,260	

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.

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.

Note 3 – Property, Plant and Equipment

The detail of property, plant and equipment at June 30, 2021, is as follows:

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Capital assets				
Utility system - infrastructure	$ 3,607,669	$ 33,626	$ -	$ 3,641,295
Equipment and vehicles	549,905	63,651	-	613,556
Total capital assets, being depreciated	4,157,574	97,277	-	4,254,851
Less accumulated depreciation for				
Utility system - infrastructure	(2,822,942)	(117,930)	-	(2,940,872)
Equipment and vehicles	(384,245)	(42,130)	-	(426,375)
Total accumulated depreciation	(3,207,187)	(160,060)	-	(3,367,247)
Total capital assets, net	$ 950,387	$ (62,783)	$ -	$ 887,604
Total capital assets, net	$ 950,387	$ (62,783)	$ -	$ 887,604

Note 4 – Long-Term Liabilities

The following is a summary of the changes in noncurrent liabilities reported in Statement of Net Position for the year ended June 30, 2021:

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Compensated absences	71,092	12,025	-	83,117
	$ 71,092	$ 12,025	$ -	$ 83,117

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 5 – Retirement Plan

The Authority has established a CalPERS 457 deferred compensation 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 deferred compensation plan equal to the employee's salary reduction contributions up to a limit of 6.842% of the employee's compensation for the calendar year.

Note 6 – 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' compensaton 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 7 – Subsequent Events

The Authority evaluated subsequent events for recognition and disclosure through October 22, 2021, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2021, that required recognition or disclosure in such financial statements.

BRYANT L. JOLLEY
CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Luis A. Perez C.P.A.
Lan T. Kimoto

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, 2021, 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 October 22, 2021.

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) as a basis for designing 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 financial statements. 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*.

901 "N" STREET, SUITE 104 FIREBAUGH, CALIFORNIA 93622 PHONE 559.659.3045 FAX 559.659.0615

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.

October 22, 2021