

UNION PUBLIC UTILITY DISTRICT

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Union Public Utility District
Murphys, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Union Public Utility District (District), which comprise the statement of net position as of June 30, 2017, 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 District'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 Union Public Utility District as of June 30, 2017, 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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United State of America require that the District's Schedule of Proportionate Share of Net Pension Liability and Contributions, on pages 21 – 22 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Government 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 and the other auditors 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 19, 2017 on our consideration of the Union Public Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



October 19, 2017



UNION PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2017

ASSETS

Current assets

Cash and investments	\$ 1,408,022
Accounts receivable, net	210,254
Due from other governments	27,899
Interest receivable	3,386
Prepaid insurance	37,044
Total current assets	<u>1,686,605</u>

Non-current assets

Restricted cash and investments	459,542
Capital Assets	
Property, plant, and equipment - net of accumulated depreciation	<u>5,327,533</u>
Total non-current assets	<u>5,787,075</u>

Total assets 7,473,680

DEFERRED OUTFLOWS

Total deferred outflows of resources 155,451
155,451

LIABILITIES

Current liabilities

Accounts payable	22,027
Accrued interest payable	3,719
Current portion of long-term debt	<u>163,236</u>
Total current liabilities	<u>188,982</u>

Non-current liabilities

Compensated absences	62,157
Long-term debt	1,399,398
Net pension liability	<u>364,105</u>
Total non-current liabilities	<u>1,825,660</u>

Total liabilities 2,014,642

DEFERRED INFLOWS OF RESOURCES

Total deferred inflows of resources 27,632
27,632

NET POSITION

Net investment in capital assets	3,764,899
Restricted for UPA	318,896
Restricted for debt service	140,646
Unrestricted	<u>1,362,416</u>
Total net position	<u>\$ 5,586,857</u>

UNION PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2017

Operating Revenue

Water sales	\$ 1,531,629
Transfer connection and meter fees	<u>101,500</u>
Total operating revenue	<u>1,633,129</u>

Operating Expense

Water treatment	534,275
Transmission and distribution	349,175
Administrative and customer services	243,228
Depreciation	<u>275,604</u>
Total operating expense	<u>1,402,282</u>
Operating income/(loss)	<u>230,847</u>

Non-operating Revenue/(Expense)

Property taxes	109,381
Intergovernmental	27,899
Interest income	10,754
Other income	4,497
Interest expense	<u>(46,922)</u>
Total non-operating revenue/(expense)	<u>105,609</u>

Change in Net Position

336,456

Net Position

Beginning of year	<u>5,250,401</u>
End of year	<u>\$ 5,586,857</u>

UNION PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2017

Operating Activities

Receipts from customers and users	\$ 1,556,212
Payments to suppliers for goods and services	(740,213)
Payments to employees for services	(428,087)
Net cash provided by operating activities	<u>387,912</u>

Non-capital Financing Activities

Property taxes received	109,381
Other income	4,497
Net cash provided by non-capital financing activities	<u>113,878</u>

Capital and Related Financing Activities

Acquisition of capital assets	(151,530)
Principal paid on long-term debt	(158,298)
Interest paid on long-term debt	(47,764)
Net cash used in capital and related financing activities	<u>(357,592)</u>

Investing Activities

Interest received	9,300
Net cash provided by investing activities	<u>9,300</u>

Net Increase in Cash and Investments

153,498

Cash and Investments

Beginning of year	<u>1,714,066</u>
End of year	<u>\$ 1,867,564</u>

Reconciliation of Cash and Investments to the Statement of Net Position

Cash and investments	\$ 1,408,022
Restricted cash and investments	459,542
	<u>\$ 1,867,564</u>

Cash Flows from Operating Activities

Operating income (loss)	\$ 230,847
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	275,604
(Increase) Decrease in accounts receivable	(76,917)
(Increase) Decrease in prepaid expenses and inventory	(6,926)
(Increase) Decrease in deferred outflows of resources	(90,509)
Increase (Decrease) in payables and accrued expenses	888
Increase (Decrease) in net pension liability	76,695
Increase (Decrease) in deferred inflows of resources	(26,949)
Increase (Decrease) in compensated absences	5,179

Net Cash Provided by Operating Activities

\$ 387,912

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Union Public Utility District (District) 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 District are described below:

Reporting Entity

The District was established July 23, 1946, for the purpose of supplying domestic and agricultural water to property within the District which includes the unincorporated communities of Murphys, Douglas Flat, Vallecito, Carson Hill and Six-Mile Village. The water supply and distribution system was acquired on January 1, 1961, from the Calaveras Water Users Association. Operations are conducted under provisions of the Community Services District Laws.

Basis of Accounting

The District 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 District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sewer service. Operating expenses for the District 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 non-operating revenues and expenses.

Financial Statement Amounts

Cash and Investments - Cash and investments represent the District'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.

Accounts Receivable – Billings for water services are sent monthly and are reflected on the accrual basis of accounting. Delinquent accounts are submitted to the Calaveras County and are attached to the County tax rolls.

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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 is 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>
Water Treatment	25 - 50
Transmission and Distribution	25 - 50
Equipment	5 - 10

Compensated Absences – The District allows employees to accumulate unused vacation leave to a maximum of 400 hours. Upon termination, accumulated vacation that was not taken will be paid to the employee. Sick leave is not paid upon termination, but will be paid only upon illness while in the employment of the District.

Vested or accumulated vacation leave time 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 obligations are reported as District liabilities. Loan fees are deferred and amortized over the life of the loan using the effective interest method.

Pension Plan – All full-time District employees are members of the State of California Public Employees' Retirement System. The District's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the System's actuary. See Note 6 for further discussion.

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

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Position/Fund Equity - The financial statements utilize a net position presentation. Net position is 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 District not restricted for any project or other purpose.

Revenues and Expenses – The District 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 District's principal ongoing operations. The principle operating revenues of the District are charges to customers for sales and services. 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.

Property Tax – Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Calaveras bills and collects the taxes for the District. Tax revenues are recognized by the District when billed.

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.

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 2 – Cash and Investments

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 1,408,022
Restricted Cash and Investments	<u>459,542</u>
Total Cash and Investments	<u>\$ 1,867,564</u>

Cash and investments as of June 30, 2017 consist of the following:

Cash on hand	\$ 100
Deposits with financial institutions	253,057
Cash with fiscal agents	140,602
Local Agency Investment Fund	<u>1,473,805</u>
Total Cash and Investments	<u>\$ 1,867,564</u>

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 District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (Level 2 input).

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 2 – Cash and Investments (Continued)

The District had the following recurring fair value measurements as of June 30, 2017:

	Level 1	Level 2	Level 3	June 30, 2017 Balance
Investments by fair value level:				
Equity Securities:				
First America Treasury Obligation	\$ -	\$ 140,602	\$ -	\$ 140,602
LAIF	-	1,473,805	-	1,473,805
Total Equity Securities	-	1,614,407	-	1,614,407
Investments carried at amortized cost:				
Bank Deposits and Cash on Hand				253,157
Total Investments Amortized at Cost				253,157
Total Investments				<u>\$ 1,867,564</u>

Investments Authorized by the District's Investment Policy

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

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 District'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

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 2 – Cash and Investments (Continued)

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, 2017 the District had the following investments.

<u>Investment Type</u>		<u>Maturity Date</u>
Local Agency Investment Fund (LAIF)	\$ 1,473,805	N/A
Total	<u>\$ 1,473,805</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 District 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 District investments.

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 District'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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 2 – Cash and Investments (Continued)

Custodial Credit Risk (Continued)

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 District'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 District 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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District'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, is as follows:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets, not being depreciated				
Land	\$ 117,464	\$ -	\$ -	\$ 117,464
Construction in progress	6,719	14,502	-	21,221
Total capital assets, not being depreciated	<u>124,183</u>	<u>14,502</u>	<u>-</u>	<u>138,685</u>
Capital assets, being depreciated				
Treatment plant	6,822,939	-	-	6,822,939
Utility system - infrastructure	2,953,718	133,757	-	3,087,475
Donated property	232,427	-	-	232,427
Buildings and equipment	571,954	3,271	-	575,225
Total capital assets, being depreciated	<u>10,581,038</u>	<u>137,028</u>	<u>-</u>	<u>10,718,066</u>
Less accumulated depreciation for				
Treatment plant	(3,130,157)	(149,369)	-	(3,279,526)
Utility system - infrastructure	(1,627,095)	(96,998)	-	(1,724,093)
Donated property	(116,238)	(4,649)	-	(120,887)
Buildings and equipment	(380,124)	(24,588)	-	(404,712)
Total accumulated depreciation	<u>(5,253,614)</u>	<u>(275,604)</u>	<u>-</u>	<u>(5,529,218)</u>
Total capital assets, being depreciated, net	<u>5,327,424</u>	<u>(138,576)</u>	<u>-</u>	<u>5,188,848</u>
Total capital assets, net	<u>\$ 5,451,607</u>	<u>\$ (124,074)</u>	<u>\$ -</u>	<u>\$ 5,327,533</u>

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 4 – Long-Term Debt

Long-term debt at June 30, 2017, consisted of the following:

	Balance			Balance	Current
	July 1, 2016	Additions	Retirements	June 30, 2017	Portion
2005 Revenue Refunding Bond	\$ 258,143	\$ -	\$ (47,635)	\$ 210,508	\$ 49,677
Safe Drinking Water	<u>1,462,789</u>	<u>-</u>	<u>(110,663)</u>	<u>1,352,126</u>	<u>113,559</u>
Total Business-Type Activity Debt	<u>\$ 1,720,932</u>	<u>\$ -</u>	<u>\$ (158,298)</u>	<u>\$ 1,562,634</u>	<u>\$ 163,236</u>

2005 Revenue Refunding Bond - On December 30, 2005, the District issued the 2005 Water Revenue Bonds for \$636,812, which were used to payoff a USDA Rural Development Loan. The loan is paid annually at 4.24% for a period of 15 years, maturing in August 2020.

Safe Drinking Water - In 2005, the District obtained a State of California Safe Drinking Water loan for \$2,329,772, which were used to upgrade the water treatment plan. The loan is paid annually at 2.6% for a period of 20 years, maturing in January 2027.

The future debt service requirements for the loans payable is as follows:

Years ending June 30,	Principal	Interest	Total
2018	\$ 163,236	\$ 42,826	\$ 206,062
2019	168,335	37,726	206,061
2020	173,605	32,457	206,062
2021	177,709	26,437	204,146
2022	125,920	22,060	147,980
2023-2027	680,788	59,115	739,903
2028	73,040	950	73,990
	<u>\$ 1,562,634</u>	<u>\$ 221,571</u>	<u>\$ 1,784,205</u>

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 5 – Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports the following deferred outflows related to net pension liability in the Statement of Net Position:

Fiscal year 2016-17 pension contributions subsequent to measurement date	\$ 53,479
Differences in projected and actual experience	1,423
Differences in projected and actual contributions	9,660
Net differences between projected and actual earnings on pension plan investments	<u>90,889</u>
Total deferred outflows of resources	<u>\$155,451</u>

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports the following deferred inflows related to net pension liability in the Statement of Net Position:

Changes in assumptions or other inputs	\$ 17,463
Adjustment due to differences in proportions	<u>10,169</u>
Total deferred inflows of resources	<u>\$ 27,632</u>

Note 6 – Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description – The District’s defined benefit pension plan, the California Public Employees’ Retirement System (CalPERS), provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. CalPERS is part of the Public Agency portion of the CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive financial report. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy – Active plan members in the District’s defined pension plan are required to contribute 7% of their annual salary. The District has elected to make the employee contribution and the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2017 was 7.159%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

UNION PUBLIC UTILITY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

Note 6 – Defined Benefit Pension Plan (Continued)

The Plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous</u>
	Prior to
Hire Date	<u>January 1, 2013</u>
	2.0% at 60; maximum 2%
Benefit Formula	COLA
Benefit Vesting Schedule	36 mos.
Benefit Payments	monthly for life
Retirement Age	60
Monthly Benefits, as a % of Eligible Compensation	2.00%
Required Employee Contribution Rates	7.00%
Required Employer Contribution Rates	7.159%

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 53,479
Contributions – employee	\$ 22,250

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	Proportionate Share of
	<u>Net Pension Liability</u>
Total Net Pension Liability - Miscellaneous	\$ 364,105

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 6 – Defined Benefit Pension Plan (Continued)

General Information about the Pension Plan

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each Plan is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion – June 30, 2015	0.01048%
Proportion – June 30, 2016	<u>0.01048%</u>
Change – Increase/(Decrease)	0.00000%

For the year ended June 30, 2017, the District recognized pension expense of \$12,718. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 53,479	\$ -
Changes in assumptions or other inputs	-	(17,463)
Differences in projected and actual experience	1,423	-
Differences in projected and actual contributions	9,660	-
Net differences between projected and actual earnings on pension plan investments	90,889	-
Adjustment due to differences in proportions	<u>-</u>	<u>(10,169)</u>
Total	<u>\$ 155,451</u>	<u>\$ (27,632)</u>

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 6 – Defined Benefit Pension Plan (Continued)

\$53,479 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30		
2018	\$	4,512
2019		6,047
2020		40,240
2021		23,541
Thereafter		-

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' ¹ Membership Date for all Funds
Post Retirement Benefit Increa	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online.

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 6 – Defined Benefit Pension Plan (Continued)

All other actuarial assumptions used in the June 30, 2015 valuation was based on the results of an actuarial experience study for fiscal years 1997-2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website.

Change of assumptions – There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represents the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount rate – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans, the amortization and smoothing periods recently adopted by the Board were used. For the Plan, the crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected rate of returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected nominal rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 6 – Defined Benefit Pension Plan (Continued)

The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for each Plan, calculating using the discount rate of each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65%) or 1-percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Net Pension Liability \$	\$ 575,189	\$ 364,105	\$ 189,654

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issue CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2017, the District has no amount to report as outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Note 7 – 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.

UNION PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 8 – Risk Management

The District is exposed to various risks of loss to torts; theft of, damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays an annual premium for its general insurance coverage. The District continues to carry commercial insurance for all other risks of loss, including workers' compensation, and employee health and accident insurance.

Note 9 – Subsequent Events

The District evaluated subsequent events for recognition and disclosure through October 19, 2017, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

UNION PUBLIC UTILITY DISTRICT

**REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

**LAST 10 YEARS*
AS OF JUNE 30, 2017**

	2015	2016	2017
Proportion of the net pension liability	0.528%	0.01047%	0.01048%
Proportionate share of the net pension liability	\$ 328,685	\$ 287,410	\$ 364,105
Covered - employee payroll	\$ 343,105	\$ 421,728	\$ 302,326
Proportionate share of the net pension liability as a percentage of covered- employee payroll	95.80%	68.15%	120.43%
Plan's fiduciary net position	\$ 936,016	\$ 1,106,275	\$ 1,203,767
Plan's fiduciary net position as a percentage of the Total Pension Liability	74.01%	79.37%	76.78%

*Fiscal year 2014-15 was the first year of implementation, therefore only three years are shown.

UNION PUBLIC UTILITY DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CONTRIBUTIONS
LAST 10 YEAR*
AS OF JUNE 30, 2017

	2015	2016	2017
Contractually required contribution (actuarially determined)	\$ 53,888	\$ 53,291	\$ 51,659
Contributions in relation to the actuarially determined contributions	(53,888)	(53,291)	(51,659)
Contributions deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 343,105	\$ 421,728	\$ 302,326
Contributions as a percentage of covered-employee payroll	15.71%	12.64%	17.09%

*Fiscal year 2014-15 was the first year of implementation, therefore only three years are shown.

Notes to Schedule of Contributions

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007
Mortality	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries
Payroll Growth	3.00%

**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
Union Public Utility District

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 Union Public Utility District (District), which comprise the statement of net position as of June 30, 2017, 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 District's basic financial statements, and have issued our report thereon dated October 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Union Public Utility District'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 opinion on the financial statements, but not for the purpose expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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.

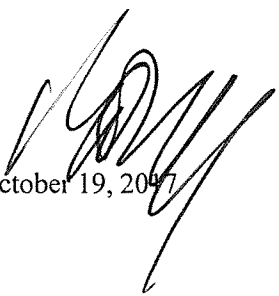
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Union Public Utility District'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.



October 19, 2007