

**UPPER MOKELUMNE RIVER
WATERSHED AUTHORITY**

**BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2018 AND 2017**

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**UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
BASIC FINANCIAL STATEMENTS
For The Years Ended SEPTEMBER 30, 2018 AND 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Upper Mokelumne River Watershed Authority
Oakland, California

Report on Financial Statements

We have audited the accompanying financial statements of the Upper Mokelumne River Watershed Authority (Authority) as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Mokelumne River Watershed Authority as of September 30, 2018 and 2017, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 this information in accordance with generally accepted auditing standards 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 December 10, 2018 on our consideration of the 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 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.

Maze + Associates

Pleasant Hill, California
December 10, 2018

**UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
SEPTEMBER 30, 2018 AND 2017**

This section presents management's analysis of the Upper Mokelumne River Watershed Authority financial condition and activities as of and for the year ended September 30, 2018. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Authority's basic financial statements. The MDA represents management's examination and analysis of the System's financial condition and performance.

This information should be read in conjunction with the audited financial statements that follow this section. The information in the MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Request for Information

Organization and Business

The Upper Mokelumne River Watershed Authority ("Authority") is a public entity established pursuant to California Government Code Chapter 5 of Division 7 of Title 1. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated August 15, 2000, and amended on April 22, 2005 and June 6, 2008, among the Alpine County Water Agency (ACWA), the Amador Water Agency (AWA), the Calaveras County Water District (CCWD), the Calaveras Public Utility District (CPUD), the East Bay Municipal Utility District (EBMUD), the Jackson Valley Irrigation District (JVID), and the Counties of Alpine, Amador and Calaveras. The goals of the Authority are the enhancement of Mokelumne River water supply and the protection of water quality and the environment. The Authority may acquire, construct, operate and maintain watershed projects and provide services to its member entities related to water and other utility-related matters.

For additional information, please see the notes to the basic financial statements.

Overview of the Financial Statements

The financial statements include a *statement of net position*, a *statement of revenues, expenses, and changes in fund net position*, a *statement of cash flows*, and *notes to the financial statements*. The report also contains other required supplementary information in addition to the basic financial statements.

The Authority's basic financial statements include:

The *statement of net position* presents information on the Authority's assets and liabilities, with the difference between the two reported as fund net position. It provides information about the nature and amount of resources and obligations at year-end.

The *statement of revenues, expenses, and changes in fund net position* presents the results of the Authority's operations over the course of the fiscal year and information as to how the *fund net position* changed during the year.

The *statement of cash flows* presents changes in cash and cash equivalents resulting from operational and noncapital activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt.

**UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
SEPTEMBER 30, 2018 AND 2017**

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 9 to 13 of this report.

Financial Position

In the current year, the Authority's current assets increased by \$1,020,678. The total net position increased by \$407,093. Major components of the Total Net Position are:

- Operating expenses consist of providing the necessary resources to member agencies in reaching the Authority's long-term strategic goals.
- Current liabilities consist of outstanding invoices payable at fiscal year-end.
- Unrestricted assets consist of cash available less account payables.
- Total net position increased by \$407,093 due to an increase in Current Assets.

Summary of Net Position (Table 1)
September 30, 2018 and September 30, 2017

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Assets:			
Current assets	\$ 1,317,975	\$ 297,297	\$ 1,020,678
Total assets	<u>1,317,975</u>	<u>297,297</u>	<u>1,020,678</u>
Current liabilities	<u>627,943</u>	<u>14,358</u>	<u>613,585</u>
Net position:			
Unrestricted assets	<u>690,032</u>	<u>282,939</u>	<u>407,093</u>
Total net position	<u>\$ 690,032</u>	<u>\$ 282,939</u>	<u>\$ 407,093</u>

**UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
SEPTEMBER 30, 2018 AND 2017**

Results of Operations

- Operating expenses during the fiscal year ended September 30, 2018 totaled \$1,665,752 compared to \$370,595 for the year ended September 30, 2017. This increase of \$1,295,157 is due to an increase in grant related pass through expenditures.
- Contributions received during the fiscal year ended September 30, 2018 totaled \$147,000 compared to \$309,500 for the year ended September 30, 2017. This decrease of \$162,500 reflects an agreement by the Authority's members to decrease budgeted contributions over the prior year.
- State grants increased by \$1,737,293 due to an increase in grants this year over the prior year. This is in line with increased grant expenditures.

Summary of Revenues, Expenses (Table 2)

Years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Operating expenses	\$ (1,665,752)	\$ (370,595)	\$ (1,295,157)
Nonoperating income	<u>800</u>	<u>556</u>	<u>244</u>
Loss before capital contributions	(1,664,952)	(370,039)	(1,294,913)
Capital contributions	147,000	309,500	(162,500)
State Grants	<u>1,925,045</u>	<u>187,752</u>	<u>1,737,293</u>
Change in net position	\$ <u><u>407,093</u></u>	\$ <u><u>127,213</u></u>	\$ <u><u>279,880</u></u>

Request for Information

This financial report is designed to provide viewers with a general overview of the Upper Mokelumne River Watershed Authority's finances and demonstrate the Authority's accountability for the monies it manages. If you have any questions about this report or need additional information, please contact: the UMRWA Authority Treasurer, MS #402, P.O. Box 24055, Oakland, CA 94623-1055.

UPPER MOKELUMNE RIVER WATERSHED AUTHORITY

STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017

Assets	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 237,785	\$ 282,939
Grants receivable	1,079,857	14,186
Accrued interest receivable	<u>333</u>	<u>172</u>
Total current assets	<u>1,317,975</u>	<u>297,297</u>
 Liabilities		
Current liabilities:		
Accounts payable	<u>627,943</u>	<u>14,358</u>
Total current liabilities	<u>627,943</u>	<u>14,358</u>
 Net Position (Note 1B)		
Unrestricted	<u>690,032</u>	<u>282,939</u>
Total net position	<u><u>\$ 690,032</u></u>	<u><u>\$ 282,939</u></u>

See accompanying notes to financial statements

UPPER MOKELUMNE RIVER WATERSHED AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating expenses:		
Planning and development	\$ (151,381)	\$ (53,659)
General and administration	(40,318)	(109,407)
Grant awards to Sponsors	(1,474,053)	(207,529)
	<u>(1,665,752)</u>	<u>(370,595)</u>
Nonoperating revenue:		
Interest and other income	<u>800</u>	<u>556</u>
	<u>(1,664,952)</u>	<u>(370,039)</u>
Member contributions and other receipts:		
Member contributions	147,000	309,500
State grants	<u>1,925,045</u>	<u>187,752</u>
	407,093	127,213
Change in net position	407,093	127,213
Total net position - beginning	<u>282,939</u>	<u>155,726</u>
Total net position - ending	<u>\$ 690,032</u>	<u>\$ 282,939</u>

See accompanying notes to financial statements

UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash used in operating activities:		
Cash paid for supplies and services	\$ (1,519,346)	\$ (401,194)
Cash used in noncapital financing activities:		
Cash received from members	147,000	309,500
Cash received from State grants	1,326,553	187,752
Net cash (used) provided by noncapital financing activities	1,473,553	497,252
Cash provided by investing activities		
Interest and other income received	639	480
Net change in cash and cash equivalents	(45,154)	96,538
Cash and cash equivalents:		
Beginning of year	282,939	186,401
End of year	\$ 237,785	\$ 282,939
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,665,752)	\$ (370,595)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in operating assets and liabilities		
Accounts payable	146,406	(30,599)
Net cash provided (used) by operating activities	\$ (1,519,346)	\$ (401,194)

See accompanying notes to financial statements

UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Upper Mokelumne River Watershed Authority (the Authority) is a public entity established pursuant to California Government Code Chapter 5 of Division 7 of Title 1. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated August 15, 2000 as amended on April 22, 2005, and June 6, 2008, among Alpine County Water Agency (ACWA), Amador Water Agency (AWA), Calaveras County Water District (CCWD), Calaveras Public Utility District (CPUD), East Bay Municipal Utility District (EBMUD), Jackson Valley Irrigation District (JVID), and the Counties of Alpine, Amador and Calaveras. The Authority was initially established in the year 2000 for the purpose of effectuating the acquisition, operation and maintenance of Project No. 137 and any future Watershed Projects. The 2005 amendments to the Joint Exercise of Powers Agreement specify the purposes of the Authority to include enhancement of Mokelumne River water supply and protection of water quality and the environment. The 2008 amendments to the joint powers agreement added regional water supply planning, water supply projects, and projects outside the boundary of the Upper Mokelumne River watershed as eligible Authority activities.

Members contribute funds in support of approved programs and projects in accordance with a funding formula that is reviewed annually and adjusted as needed. Funding contributions for the year ending September 30, 2017 were allocated twenty percent to Amador members (Amador Water Agency, Amador County and Jackson Valley Irrigation District), twenty percent to Calaveras members (Calaveras County Water District, Calaveras County and Calaveras Public Utility District), and sixty percent to EBMUD.

B. Basis of Accounting and Presentation

The accompanying financial statements report the financial position of the Authority in accordance with accounting principles generally accepted in the United States of America. As the Authority is a governmental entity, the preparation of its financial statements is governed by the pronouncements of the Governmental Accounting Standards Board (GASB).

The Authority as a proprietary enterprise is accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing deliverable goods in connection with the Authority's principal ongoing operations. Operating expenses for the Authority include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Net Position – The statement of net position is designed to display the financial position of the Authority. The Authority’s fund equity is report as net position, which is the excess of all of the Agency’s assets over all its liabilities. Net Position is divided into three captions under GASB Statement 34. These captions apply only to Net Position and are described below:

Net investment in capital assets describes the Authority’s capital assets, including restricted capital assets, net of accumulated depreciation and reduced by any outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted describes the portion of Net Position which is not restricted to use.

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

C. *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 certain 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 expenses during the reporting period. Actual results could differ from those estimates.

D. *Cash and Cash Equivalents*

The Authority considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

E. *Fair Value Measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOTE 2 - CASH AND INVESTMENTS

A. Composition

The Authority’s cash and cash equivalents consisted of the following at September 30:

	2018	2017
Demand deposits with banks	\$ 173,785	\$ 218,939
Local Agency Investment Fund	64,000	64,000
	\$ 237,785	\$ 282,939

B. Collateralization of Cash and Cash Equivalents

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority’s cash on deposit or first trust deed mortgage notes with a value of 150% of the Authority’s cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the Authority’s name and places the Authority ahead of general creditors of the institution pledging the collateral. The Authority has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The Authority’s investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect the fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - CASH AND INVESTMENTS

C. Credit Risk

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. As an investment pool, the Local Agency Investment Fund was not rated as of September 30, 2018.

D. Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The California Local Agency Investment Fund is exempt from the classification for fair value hierarchy.

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by holding investments to maturity. The Authority's only investment is in the California Local Agency Investment Fund which has a maturity of less than twelve months.

F. Local Agency Investment Fund (LAIF)

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgaged-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At September 30, 2018 and 2017, these investments matured in an average of 193 and 190 days.

UPPER MOKELUMNE RIVER WATERSHED AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 3 – RELATED PARTY TRANSACTION

Two of the Authority's members directly support the Authority's activities. Amador County provides legal services to the Authority with Amador County Counsel serving as Authority Counsel. EBMUD provides professional and administrative support services with staff serving as Treasurer and Authority Secretary. In addition, EBMUD provides certain treasury management and accounting services including all cash transactions and providing for the annual audit. According to the agreement, most of the services provided by members are considered contributions, and should not bill the Authority.

NOTE 4 – RISK MANAGEMENT

The Authority's operations currently consist solely of consulting and education activities and related administrative governance over those activities. All professional services contracts require consultants to have specified comprehensive general liability, workers' compensation and professional liability insurance. Members who provide services for the Authority are responsible for managing their own risk, including their insurance.

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Upper Mokelumne River Watershed Authority
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Upper Mokelumne River Watershed Authority (Authority), as of and for the year ended September 30, 2018 and the related notes to the financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated December 10, 2018 which is an integral part of our audit and should be read in conjunction with this report.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mazze + Associates

Pleasant Hill, California
December 10, 2018