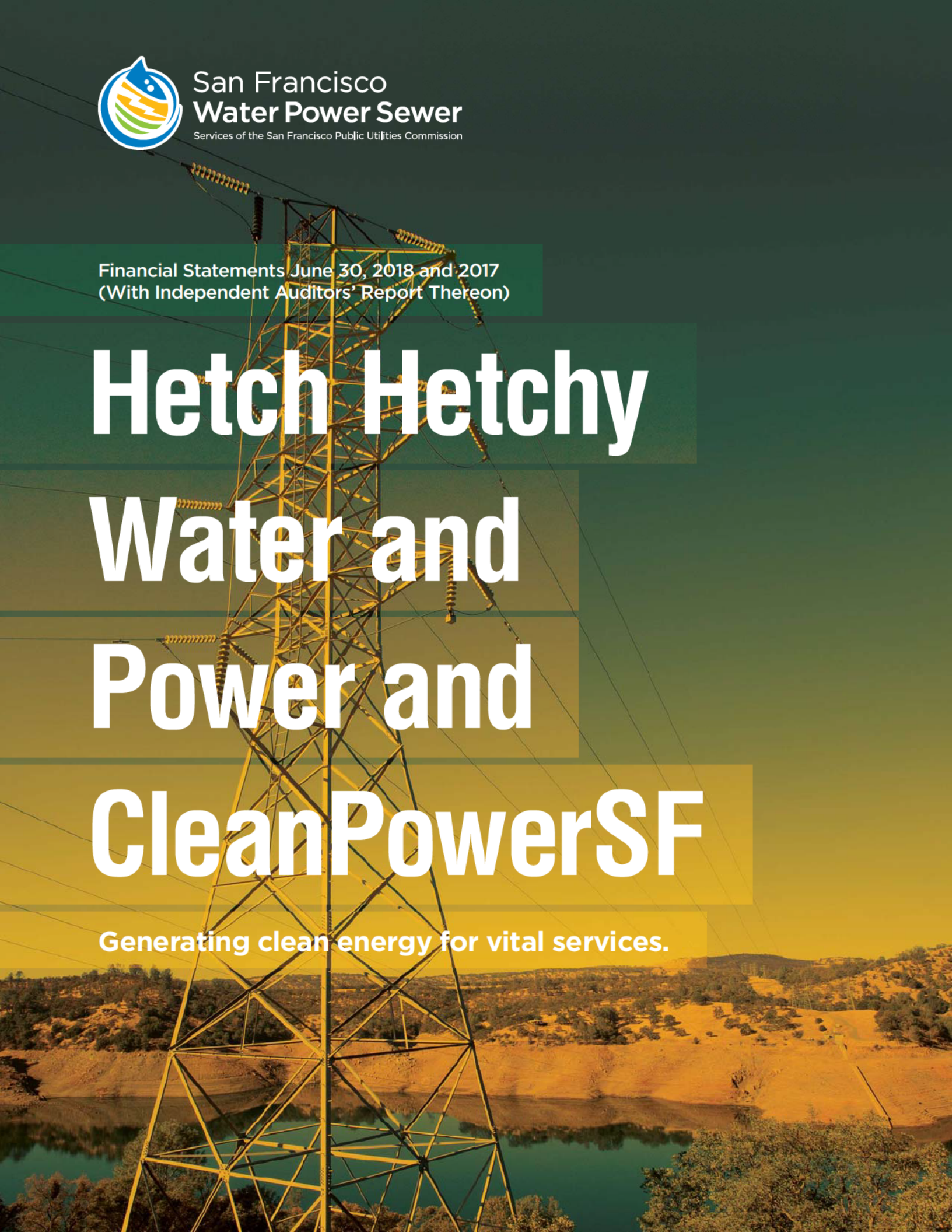
San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

Financial Statements June 30, 2018 and 2017
(With Independent Auditors' Report Thereon)

Hetch Hetchy Water and Power and CleanPowerSF

Generating clean energy for vital services.



HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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KPMG LLP
Suite 1400
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Independent Auditors' Report

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of each fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), an enterprise fund of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hetch Hetchy's basic financial statements as listed in the tables 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 auditors' 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 opinions on the effectiveness of the entity's internal control. Accordingly, we express no such opinions. 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 opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of each fund of Hetch Hetchy as of June 30, 2018 and 2017 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1, the financial statements of Hetch Hetchy are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the City that is attributable to the transactions of Hetch Hetchy. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

As discussed in Note 2(s) to the financial statements, in 2018, Hetch Hetchy adopted Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other than Pensions*. The July 1, 2017 beginning net position has been restated for the retrospective application of this new accounting guidance.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 32 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 opinions or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express opinions or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2019 on our consideration of the Hetch Hetchy'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 solely 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 opinions on the effectiveness of the Hetch Hetchy's 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 Hetch Hetchy's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
January 25, 2019

This section presents management's analysis of San Francisco Hetch Hetchy Water and Power and CleanPowerSF Enterprise's (Hetch Hetchy or the Enterprise) financial condition and activities as of and for fiscal year ended June 30, 2018 and 2017. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Enterprise's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All dollar amounts, unless otherwise noted, are expressed in thousands of dollars.

In May 2016, San Francisco Public Utilities Commission (SFPUC or the Commission) launched CleanPowerSF, a Community Choice Aggregation (CCA) program into operation, pooling the electricity demands of their residents and businesses for the purpose of buying electricity on behalf of those customers. CleanPowerSF provides San Francisco with new clean energy alternatives, with its objectives to reduce greenhouse gas emissions, and to provide the City and County of San Francisco's (the City) energy consumers with renewable electricity supplies at competitive rates. The SFPUC intends CleanPowerSF to be financially independent, with ability to set rates and charges with adequate revenues, and to issue debt to support its operations and future projects. CleanPowerSF is discretely presented as a fund of the Enterprise starting fiscal year 2017.

The information in this MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Capital Assets
- Debt Administration
- Rates and Charges
- Request for Information

Organization and Business

SFPUC is a department of the City that is responsible for the maintenance, operation, and development of three utility enterprises: Water, Wastewater, and Hetch Hetchy. The Enterprise was established as a result of the Raker Act of 1913, which granted water and power resource rights-of-way on the Tuolumne River in Yosemite National Park and the Stanislaus National Forest to the City. The Enterprise operates the Hetch Hetchy project, which provides both electricity generation and upcountry water service; and is engaged in the collection and conveyance of approximately 85% of the regional system's water supply and in the generation and transmission of electricity.

In normal rain years, 85% of San Francisco's drinking water starts out as snow falling on 459 square miles of watershed land in Yosemite National Park, and the City may supplement water supply from an additional 191 square miles of watershed in the Stanislaus National Forest during extremely dry years. As the snow melts, it collects in Hetch Hetchy's storage reservoirs. As water flows by gravity through over 150 miles of pipelines and tunnels, it turns the turbines in three hydroelectric powerhouses, generating approximately 1.4 billion kilowatt hours of electricity per year. The electricity travels over 160 miles of transmission and distribution lines from the upcountry powerhouses to the San Francisco Bay Area. Approximately 81% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, San Francisco International Airport and its tenants, San Francisco General Hospital, City streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 19% of electricity generated is sold to CleanPowerSF and other publicly owned utilities.

Hetch Hetchy

Hetch Hetchy provides reliable, high quality water and electric energy to the City and other customers, protects watershed resources in cooperation with Federal agencies, operates and maintains facilities to a high standard of safety and reliability, and maximizes revenue opportunities within approved levels of risk.

Hetch Hetchy, a stand-alone enterprise is comprised of three funds: 1) Hetch Hetchy Water (Hetchy Water) upcountry operations and water system; 2) Hetch Hetchy Power (Hetchy Power), also referred to as the Power Enterprise, which is wholly contained within the Hetch Hetchy fund; and 3) CleanPowerSF, which is an enterprise fund to aggregate the buying power of customers within San Francisco to purchase renewable energy sources or clean power, is reported as a separate fund of Hetch Hetchy. A number of the facilities are joint assets and used for both water and power generation.

Hetchy Water

For efficiency and to streamline the coordination of upcountry water and power operations, Hetchy Water operates upcountry and joint-asset facilities, managing resources in an environmentally responsible manner to a high standard of safety and reliability while meeting regulatory requirements. It is responsible for operating the Hetch Hetchy Reservoir, the main source of water for the Hetch Hetchy system. Hetchy Water operates, maintains, and improves water and power facilities, smaller dams and reservoirs, water transmission systems, power generation facilities, and power transmission assets, including transmission lines to the Newark substation. Hetchy Water delivers high quality water from upcountry downhill to the Bay Area while optimizing the resulting generation of clean hydropower as water is transported through the system. It maintains land and properties consistent with public health and neighborhood concerns.

Hetchy Power

The core business of Hetchy Power, as a municipal department, is to provide adequate and reliable supplies of electric power to meet the electricity needs of City and County of San Francisco's customers, and to offer, when available, power for the municipal loads and agricultural pumping demands of the Modesto Irrigation District (MID) consistent with prescribed contractual obligations and federal law.

Hetchy Power's portfolio consists of hydroelectric generation, onsite solar at SFPUC and other City facilities, generation using bio-methane produced at SFPUC wastewater treatment facilities, and third-party purchases. Consistent with its commitment to the development of cleaner and greener power, and to address environmental concerns and community objectives, Hetchy Power continues to evaluate and expand its existing resource base to include additional renewables, distributed generation, demand management, and energy efficiency programs. As part of its mission and core functions, Hetchy Power provides reliable energy services at reasonable cost to customers, with attention to environmental effects and community concerns.

Hetch Hetchy Joint Water and Power

A portion of Hetch Hetchy's operating budget, capital program, and assets, provides benefit to both Hetchy Power and Hetchy Water. This is commonly referred to as joint costs and joint assets. Both operating and capital costs that jointly benefit both funds are allocated 55% to Hetchy Power and 45% to Hetchy Water, as has historically been done by the SFPUC.

CleanPowerSF

The core business of CleanPowerSF is to provide greener electricity generation to residential and commercial consumers in San Francisco. Through CleanPowerSF, SFPUC seeks to achieve several complementary goals, including affordable and competitive electricity generation rates, a diverse electricity resource portfolio that is comprised of renewable and other clean sources of supply, and high-quality customer service.

Overview of the Financial Statements

Hetch Hetchy's financial statements include the following:

Statements of Net Position present information on Hetch Hetchy's assets, deferred outflows, liabilities, and deferred inflows as of year-end, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Hetch Hetchy is improving or worsening.

While the *Statements of Net Position* provide information about the nature and amount of resources and obligations as of year-end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of Hetch Hetchy's operations over the course of the fiscal year and information as to how the net position changed during the year. These statements can be used as an indicator of the extent to which Hetch Hetchy has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements from some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expenses of employee earned but unused vacation leave.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

The *Notes to Financial Statements* provide information that is essential to a full understanding of the financial statements that is not presented on the face of the financial statements.

Financial Analysis

Financial Highlights for Fiscal Year 2018

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by $592,516, excluding interfund payable and receivable of $5,601 related to working capital loan between Hetchy Power and CleanPowerSF.
- Net position increased by $29,016 or 5.0% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $34,701 or 7.8% to $479,422.

- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by $1,984 or 1.0% to $191,963.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $3,485 or 1.8% to $197,615.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by $185,276.
- Net position increased by $23,434 or 13.9% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $12,068 or 9.4% to $139,799.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by $1,590 or 4.5% to $33,560.
- Operating expenses, excluding other non-operating expenses, decreased by $10,307 or 20.6% to $39,792.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by $398,663.
- Net position increased by $4,940 or 1.2% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $22,633 or 7.1% to $339,623.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by $2,127 or 1.8% to $118,835.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $2,460 or 2.1% to $119,395.

CleanPowerSF

- Total assets of CleanPowerSF exceeded total liabilities by $8,577.
- Net position increased by $642 or 7.8% during the fiscal year.
- CleanPowerSF had no capital assets, net of accumulated depreciation and amortization as of June 30, 2018.
- Operating revenues, excluding interest and investment income and other non-operating revenues increased by $5,701 or 16.8% to $39,568.

(Continued)

- Operating expenses, excluding interest expense increased by $11,332 or 41.8% to $38,428, of which $3,501 was electricity purchased from Hetchy Power.

Financial Highlights for Fiscal Year 2017

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by $553,101, excluding interfund payable and receivable of $7,250 related to working capital loan between Hetchy Power and CleanPowerSF.
- Net position increased by $65,646 or 12.8% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $40,472 or 10% to $444,721.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by $25,243 or 15.3% to $189,979.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $45,635 or 30.7% to $194,130.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by $157,035.
- Net position increased by $45,645 or 37.2% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $13,864 or 12.2% to $127,731.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by $3,592 or 9.3% to $35,150.
- Operating expenses, excluding other non-operating expenses, increased by $13,563 or 37.1% to $50,099.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by $387,848.
- Net position increased by $11,783 or 3.0% during the fiscal year.
- Capital assets, net of accumulated depreciation and amortization, increased by $26,608 or 9.2% to $316,990.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by $5,032 or 4.0% to $120,962.

(Continued)

- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $4,976 or 4.4% to $116,935.

CleanPowerSF

- Total assets exceeded total liabilities by $8,218.
- CleanPowerSF had no capital assets, net of accumulated depreciation and amortization as of June 30, 2017.
- Operating revenues, excluding interest and investment income and other non-operating revenues were $33,867.
- Operating expenses, excluding interest expense were $27,096, of which $1,893 was electricity purchased from Hetchy Power.

Financial Position

The following tables summarize Hetch Hetchy's changes in net position.

In fiscal year 2018, the Enterprise adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As restatement of all prior periods is not practical, the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2017 (see New Accounting Standards Adopted in Fiscal Year 2018 in Significant Accounting Policies, Note 2(t)).

Table 1A - Consolidated Hetch Hetchy
Comparative Condensed Net Position
June 30, 2018, 2017, and 2016

	2018 *	2017 *	2016 *	2018-2017 Change	2017-2016 Change
Total assets:					
Current and other assets	$ 350,263	336,106	270,562	14,157	65,544
Capital assets, net of accumulated depreciation and amortization	479,422	444,721	404,249	34,701	40,472
Total assets	829,685	780,827	674,811	48,858	106,016
Deferred outflows of resources:					
Pensions	16,963	28,132	8,324	(11,169)	19,808
Other post-employment benefits	1,974	—	—	1,974	—
Total deferred outflows of resources	18,937	28,132	8,324	(9,195)	19,808
Liabilities:					
Current liabilities:					
Bonds	2,480	2,437	1,692	43	745
Certificates of participation	348	331	315	17	16
Commercial paper	20,280	20,058	—	222	20,058
Other liabilities	44,165	28,042	29,205	16,123	(1,163)
Subtotal current liabilities	67,273	50,868	31,212	16,405	19,656
Long-term liabilities:					
Bonds	52,761	55,463	58,418	(2,702)	(2,955)
Certificates of participation	14,233	14,607	14,966	(374)	(359)
Other liabilities	102,902	106,788	57,247	(3,886)	49,541
Subtotal long-term liabilities	169,896	176,858	130,631	(6,962)	46,227
Total liabilities:					
Bonds	55,241	57,900	60,110	(2,659)	(2,210)
Certificates of participation	14,581	14,938	15,281	(357)	(343)
Commercial paper	20,280	20,058	—	222	20,058
Other liabilities	147,067	134,830	86,452	12,237	48,378
Total liabilities	237,169	227,726	161,843	9,443	65,883
Deferred inflows of resources:					
Related to pensions	4,119	2,973	8,678	1,146	(5,705)
Other post-employment benefits	58	—	—	58	—
Total deferred inflows of resources	4,177	2,973	8,678	1,204	(5,705)
Net position:					
Net investment in capital assets	410,717	388,412	369,764	22,305	18,648
Restricted for debt service	834	485	306	349	179
Restricted for capital projects	11,712	—	1,409	11,712	(1,409)
Unrestricted	184,013	189,363	141,135	(5,350)	48,228
Total net position	$ 607,276	578,260	512,614	29,016	65,646

*Eliminated interfund payable and receivable of $5,601, $7,250 and $8,000 working capital loan between Hetchy Power and CleanPowerSF in fiscal years 2018, 2017 and 2016, respectively.

(Continued)

Table 1B - Hetchy Water
Comparative Condensed Net Position
June 30, 2018, 2017, and 2016

	2018	2017	2016	2018-2017 Change	2017-2016 Change
Total assets:					
Current and other assets	$ 97,578	80,350	37,195	17,228	43,155
Capital assets, net of accumulated depreciation and amortization	139,799	127,731	113,867	12,068	13,864
Total assets	237,377	208,081	151,062	29,296	57,019
Deferred outflows of resources:					
Pensions	7,488	12,659	3,746	(5,171)	8,913
Other post-employment benefits	870	—	—	870	—
Total deferred outflows of resources	8,358	12,659	3,746	(4,301)	8,913
Liabilities:					
Current liabilities	8,978	6,293	4,638	2,685	1,655
Long-term liabilities	43,123	44,753	23,554	(1,630)	21,199
Total liabilities	52,101	51,046	28,192	1,055	22,854
Deferred inflows of resources:					
Related to pensions	1,818	1,338	3,905	480	(2,567)
Other post-employment benefits	26	—	—	26	—
Total deferred inflows of resources	1,844	1,338	3,905	506	(2,567)
Net position:					
Net investment in capital assets	139,799	127,731	113,867	12,068	13,864
Restricted for capital projects	11,712	—	1,409	11,712	(1,409)
Unrestricted	40,279	40,625	7,435	(346)	33,190
Total net position	$ 191,790	168,356	122,711	23,434	45,645

(Continued)

Table 1C - Hetchy Power
Comparative Condensed Net Position
June 30, 2018, 2017, and 2016

	2018 *	2017 *	2016 **	2018-2017 Change	2017-2016 Change
Total assets:					
Current and other assets	$ 238,023	243,406	233,367	(5,383)	10,039
Capital assets, net of accumulated depreciation and amortization	339,623	316,990	290,382	22,633	26,608
Total assets	577,646	560,396	523,749	17,250	36,647
Deferred outflows of resources:					
Pensions	9,152	15,473	4,578	(6,321)	10,895
Other post-employment benefits	1,064	—	—	1,064	—
Total deferred outflows of resources	10,216	15,473	4,578	(5,257)	10,895
Liabilities:					
Current liabilities:					
Bonds	2,480	2,437	1,692	43	745
Certificates of participation	348	331	315	17	16
Commercial paper	20,280	20,058	—	222	20,058
Other liabilities	30,935	17,717	24,567	13,218	(6,850)
Subtotal current liabilities	54,043	40,543	26,574	13,500	13,969
Long-term liabilities:					
Bonds	52,761	55,463	58,418	(2,702)	(2,955)
Certificates of participation	14,233	14,607	14,966	(374)	(359)
Other liabilities	57,946	61,935	33,693	(3,989)	28,242
Subtotal long-term liabilities	124,940	132,005	107,077	(7,065)	24,928
Total liabilities:					
Bonds	55,241	57,900	60,110	(2,659)	(2,210)
Certificates of participation	14,581	14,938	15,281	(357)	(343)
Commercial paper	20,280	20,058	—	222	20,058
Other liabilities	88,881	79,652	58,260	9,229	21,392
Total liabilities	178,983	172,548	133,651	6,435	38,897
Deferred inflows of resources:					
Related to pensions	2,222	1,635	4,773	587	(3,138)
Other post-employment benefits	31	—	—	31	—
Total deferred inflows of resources	2,253	1,635	4,773	618	(3,138)
Net position:					
Net investment in capital assets	270,918	260,681	255,897	10,237	4,784
Restricted for debt service	834	485	306	349	179
Unrestricted	134,874	140,520	133,700	(5,646)	6,820
Total net position	$ 406,626	401,686	389,903	4,940	11,783

* Included $5,601 and $7,250 working capital loan to CleanPowerSF in fiscal years 2018 and 2017, respectively.
**CleanPowerSF was presented as part of Hetchy Power in fiscal year 2016.

Table 1D - CleanPowerSF
Comparative Condensed Net Position
June 30, 2018 and 2017

	2018	2017	2018-2017 Change
Total assets:			
Current and other assets	$ 20,263	19,600	663
Total assets	20,263	19,600	663
Deferred outflows of resources:			
Pensions	323	—	323
Other post-employment benefits	40	—	40
Total deferred outflows of resources	363	—	363
Liabilities:			
Current liabilities	4,252	6,032	(1,780)
Long-term liabilities	7,434	5,350	2,084
Total liabilities	11,686 *	11,382 *	304
Deferred inflows of resources:			
Related to pensions	79	—	79
Other post-employment benefits	1	—	1
Total deferred inflows of resources	80	—	80
Net position:			
Unrestricted	8,860	8,218	642
Total net position	$ 8,860	8,218	642

*Included $5,601 and $7,250 working capital loan from Hetchy Power in fiscal years 2018 and 2017, respectively.

(Continued)

Net Position, Fiscal Year 2018

2018 Moccasin Storm

On March 22, 2018, the Moccasin Dam and Reservoir and surrounding areas in the town of Moccasin, Tuolumne County, experienced significant rainfall and subsequent flooding. The SFPUC activated its Emergency Action Plan and notified responsible oversight agencies. On April 19, 2018, the California State Governor issued a State of Emergency Proclamation as the storm event caused widespread damage to several counties in the State. Tuolumne County is identified as an affected county. Hetch Hetchy Enterprise sustained considerable damage to its Moccasin-area water supply, drainage, and power generation assets. Shortly after the Governor's Emergency Proclamation, SFPUC de-activated its Emergency Action Plan and shifted to cost recovery activities.

As of June 30, 2018, the emergency, clean up, repair and construction costs related to the 2018 Moccasin Storm totaled $4,094. Of this, $3,687 was capital project related and capitalized to construction work in progress (See Table 3B). $407 was emergency and cleanup costs and has been expensed. Hetchy Water and Hetchy Power impairment loss were $177 and $118, respectively, for a total of $295, which was reported under operating expenses in the Statements of Revenues, Expenses, and Change in Net Position.

Hetch Hetchy

Hetch Hetchy's net position of $607,276 increased by $29,016 or 5.0% during the year (see Table 1A). Current and other assets were $350,263, a $14,157 or 4.2% increase from prior year with elimination of a $5,601 working capital loan from Hetchy Power to CleanPowerSF. The increase was attributed to $12,145 in cash and investment with City Treasury and outside City Treasury mainly due to $30,000 transfer from the Water Enterprise to fund upcountry water projects, $3,151 increase in prepaid charges, advances, and other receivables, of which $2,803 from vendor prepayments, $287 from receivables for Distributed Antenna System (DAS), $81 from Rim Fire insurance recoveries receivables, and $35 from other receivables for CleanPowerSF related to electricity sales, offset by decreases of $21 in custom work receivables for the Sunnydale Housing projects, $18 in payroll credits, and $16 from advance paid to the Recreation and Parks Department for the Civic Center Garage. Interest receivables increased by $608 as a result of higher interest rates, and $16 in grant receivables.

These increases were offset by decreases of $1,299 in charges for services receivables due primarily to $2,040 decrease in power sales to MID, offset by an increase of $958 in San Francisco Port tenants receivables due to pending collections, $464 repayments in due from other City departments including $677 from Mayor's Energy Conservation Account, $387 from CleanPowerSF for electricity purchased from Hetchy Power in prior year, $105 from the Wastewater Enterprise for the Living Machine System, and $29 in custom work receivables for Hunters Point Shipyard and Candlestick Point projects, offset by an increase of $734 receivable from Recreation and Parks Department for energy efficiency projects.

Capital assets, net of accumulated depreciation and amortization, increased by $34,701 or 7.8% to $479,422 primarily due to additions of facilities, improvements, machinery, and equipment for Cherry Dam Outlet Works Rehabilitation, Moccasin Facilities New Construction, Mountain Tunnel Improvement, and 2018 Moccasin Storm projects. Deferred outflows of resources decreased by $9,195, of which $11,169 was for pensions based on actuarial report, offset by an increase of $1,974 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Total liabilities increased by $9,443 or 4.1%, to $237,169. A working capital loan of $5,601 due to Hetchy Power from CleanPowerSF was eliminated upon consolidation. As of June 30, 2018, outstanding debts

decreased by $2,794 was attributable to $2,764 in principal repayments, and $252 in amortization of premium and discount, offset by an increase of $222 in Hetchy Power commercial paper issuance.

Other liabilities of $147,067, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $12,237 or 9.1%. Increases included $13,399 in outstanding accounts payable to vendors and contractors for goods and services as compared to prior year due to early close-out of legacy finance system payables to prepare for system conversion, $7,778 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, $3,432 in unearned revenues, $285 in employee related benefits including workers' compensation, vacation and sick leave, and accrued payroll, and $28 in general liability based on actuarial estimates; offset by decreases of $12,290 in net pension liability based on actuarial report, $387 due from CleanPowerSF to Hetchy Power for purchased electricity in prior year, and $8 in bond and loan interest payables. See Note 10(a), Pension Plan, for additional details.

Increase of $3,432 in unearned revenues included $1,867 in credits to MID due to year-end true-up reconciliation, $814 in deposits from DAS and the Hunters Point Shipyard projects, $618 in utility and electric energy surcharge tax payables, $535 in deposits for Sunnydale Parcel Q custom work project, $94 in DAS customer prepayments, $58 from CleanPowerSF net energy metering credits to retail and commercial customers, and $12 in prepaid rent, offset by a decrease of $566 in prior year credit due to other City department for work order billings. Deferred inflows of resources increased by $1,204, of which $1,146 was related to pensions based on actuarial report and $58 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

Hetchy Water

Hetchy Water's net position of $191,790 increased by $23,434 or 13.9% resulting from an increases of $24,995 in total assets and deferred outflows of resources, and $1,561 in total liabilities and deferred inflows of resources (see Table 1B). Increase in current and other assets of $17,228 was attributed to $16,921 increase in cash and investment with City Treasury primarily due to $30,000 transfer from the Water Enterprise to fund upcountry water projects, $210 increase in interest receivables as a result of higher interest rates, $58 in prepaid charges, advances, and other receivables, of which $60 from vendor prepayments, and $6 from Rim Fire insurance recoveries receivables, offset by decreases of $5 from advance paid to the Recreation and Parks Department for the Civic Center Garage and $3 in payroll credits. Grant receivables increased by $53 from Association of Bay Area Governments for Lower Cherry Aqueduct Emergency Rehabilitation project. These increases were offset by a decrease of $14 from Charges for services receivables primarily from Groveland Community Services due to higher collection.

Capital assets, net of accumulated depreciation and amortization, increased by $12,068 or 9.4% to $139,799 primarily due to increases in facilities, improvements, machinery, and equipment for Cherry Dam Outlet Works Rehabilitation, 2018 Moccasin Storm, Moccasin Facilities New Construction, and San Joaquin Pipeline Rehabilitation projects. Deferred outflows of resources for pensions decreased by $4,301, of which $5,171 was for pensions based on actuarial report, offset by an increase of $870 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Hetchy Water's total liabilities increased by $1,055 or 2.1% to $52,101, due increases of $4,592 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, $2,753 in outstanding payables to vendors and contractors for goods and services as compared to prior year due to early close-out of legacy finance

system payables to prepare for system conversion, $77 in employee related benefits including workers' compensation, vacation and sick leave, and $5 in prepaid rent, offset by decreases of $6,019 in net pension liability, and $353 in general liability based on actuarial estimates. Deferred inflows of resources increased by $506, of which $480 was related to pensions based on actuarial report and $26 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

Hetchy Power

Hetchy Power's net position of $406,626 increased by $4,940 or 1.2% resulting from an increase of $11,993 in total assets and deferred outflows of resources, offset by an increase of $7,053 in total liabilities and deferred inflows of resources (see Table 1C). A working capital loan of $5,601 due to Hetchy Power from CleanPowerSF was eliminated upon consolidation. Current and other assets decreased by $5,383 or 2.2%, of which $3,123 decrease in cash and investment with City Treasury and outside City Treasury mainly due to increased capital project spending, $2,113 in due from other City departments included repayments of $1,649 from CleanPowerSF for working capital loan, $677 from Mayor's Energy Conservation Account, $387 from CleanPowerSF electricity purchased in prior year, $105 from the Wastewater Enterprise for the Living Machine System, and $29 decrease in custom work receivables for Hunters Point Shipyard and Candlestick Point projects, offset by an increase of $734 in receivable from Recreation and Parks Department for energy efficiency projects.

Charges for service receivables decreased by $1,128 primarily due to decreased power sales to MID, and $37 in grant receivables due to collections from the Federal Emergency Management Agency for the Hazard Mitigation Grant Project. Prepaid charges, advances, and other receivables increased by $662 including $347 in vendor prepayments, $287 in receivables for DAS, and $75 in Rim Fire insurance recoveries receivables, offset by decreases of $21 in custom work receivables for the Sunnydale Housing projects, $15 in payroll credits, and $11 in advance paid to the Recreation and Parks Department for the Civic Center Garage. Interest receivables increased by $356 due to higher interest rates.

Capital assets, net of accumulated depreciation and amortization, increased by $22,633 or 7.1% to $339,623 primarily due to additions of facilities, improvements, machinery, and equipment for Cherry Dam Outlet Works Rehabilitation, Warnerville Substation Rehabilitation, Moccasin Facilities New Construction, and Mountain Tunnel Improvement projects. Deferred outflows of resources decreased by $5,257, of which $6,321 was for pensions based on actuarial report, offset by an increase of $1,064 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Hetchy Power's total liabilities of $178,983 increased by $6,435 or 3.7%. As of June 30, 2018, outstanding debts decreased by $2,794 attributable to $2,764 in principal repayments, and $252 in amortization of premium and discount, offset by an increase of $222 in commercial paper issuance. Other liabilities of $88,881, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $9,229 or 11.6% mainly attributed to $10,046 in outstanding accounts payable to vendors and contractors for goods and services as compared to prior year due to early close-out of legacy finance system payables to prepare for system conversion, $3,459 in unearned revenues, $2,545 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, $381 in general liability based on actuarial estimates, and $164 in employee related benefits including workers' compensation, vacation and sick leave; offset by decreases of $7,358 in net pension liability based on actuarial report and $8 in bond and loan interest payable.

Increase of $3,459 in unearned revenues included $1,867 in credits to MID due to year-end true-up reconciliation, $814 in deposits from DAS and the Hunters Point Shipyard projects, $708 in utility and electric energy surcharge tax payables, $535 in deposits for Sunnydale Parcel Q custom work project, $94 in DAS customer prepayments, and $7 in prepaid rent, offset by a decrease of $566 in prior year credit due to other City department for work order billings. Deferred inflows of resources increased by $618, of which $587 was related to pensions based on actuarial report and $31 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

CleanPowerSF

CleanPowerSF's net position of $8,860 increased by $642 or 7.8% during the fiscal year (see Table 1D). Total assets were $20,263, a $663 or 3.4% increase from prior year. Increases were attributed to $2,431 in prepaid expenses for electricity purchases and $42 in interest receivables due to higher interest rates, offset by decreases of $1,653 in cash and investment with City Treasury mainly due to higher electricity purchases and $157 in charges for services receivables from higher collections. Deferred outflows of resources increased $363, of which $323 was for pensions based on actuarial report and $40 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Total liabilities of $11,686 increased by $304 or 2.7% due to $2,036 due to other City departments, of which $1,649 in working capital loan to Hetchy Power, $387 in payment to Hetchy Power for purchased electricity from prior year, and $90 in utility tax and electric energy surcharge tax remittance. These decreases were offset by increases of $1,087 in net pension liability based on actuarial report, $641 in other post-employment benefits due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, $600 in outstanding payables to vendors and contractors for goods and services under contractual agreement as compared to prior year due to early close-out of legacy finance system payables to prepare for system conversion, $58 in unearned revenue from net energy metering credits to retail and commercial customers, and $44 in employee related benefits including accrued payroll, vacation and sick leave. Deferred inflows of resources increased by $80, of which $79 was related to pensions based on actuarial report and $1 in other post-employment benefits per implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Net Position, Fiscal Year 2017

Hetch Hetchy

Hetch Hetchy's net position of $578,260 increased by $65,646 or 12.8% during the year (see Table 1A). Current and other assets were $336,106, a $65,544 or 24.2% increase from prior year with elimination of a $7,250 working capital loan from Hetchy Power to CleanPowerSF. The increases were attributed to $67,896 in restricted and unrestricted cash and investment with City Treasury and outside City Treasury mainly explained by $60,000 transfer from the Water Enterprise to fund upcountry water projects, and $20,058 in commercial paper issuance for Hetchy Power, $420 in vendor prepayments, $193 in other receivables for Distributed Antenna System (DAS), and $201 increase in interest receivables due to higher average cash balance.

These increases were offset by decreases of $1,566 in prior year collections from the Federal Emergency Management Agency (FEMA) and the State Office of Emergency Services for the Rim Fire projects, $1,013 in receivables due from other City departments, as explained by $748 repayments from Mayor's Energy Conservation Account, $549 payment from Water Enterprise for DAS, $103 repayment from the

Wastewater Enterprise for the Living Machine System, offset by $387 increase in due from CleanPowerSF for electricity purchased from Hetchy Power.

Other decreases included $259 in receivables for various custom work projects, $75 in inventory due to more issuances than purchases, $17 from advance paid to the Recreation and Parks Department for the Civic Center Garage, and $5 in travel advance. Charges for services receivables decreased by $231, including $2,540 decreased electricity sales primarily from Turlock Irrigation District (TID) due to no sales of excess power and $256 in decreased water consumption from Lawrence Livermore National Laboratory, offset by an increase of $2,565 in charges for services receivable from CleanPowerSF.

Capital assets, net of accumulated depreciation and amortization, increased by $40,472 or 10% to $444,721 primarily due to additions of facilities, improvements, machinery, and equipment for Mountain Tunnel Improvement, Moccasin Facilities New Construction, San Joaquin Pipeline Rehabilitation, and Transbay Transit Center. Deferred outflows of resources increased by $19,808 due to pensions based on actuarial report.

Total liabilities increased by $65,883 or 40.7%, to $227,726. A working capital loan of $7,250 due to Hetchy Power from CleanPowerSF was eliminated upon consolidation. As of June 30, 2017, outstanding debts increased by $17,505 attributable to $20,058 Hetchy Power commercial paper issuance in February 2017, offset by $2,011 in principal repayments, $288 redemption of 2012 New Clean Renewable Energy Bonds (NCREBs), and $254 in amortization of premium and discount. Other liabilities of $134,830, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $48,378 or 56%. Net pension liability increased by $42,538 due to investment losses, the Appeals Court's elimination of the full funding requirement for certain members, and the impact of the revised demographic assumptions and change in discount rate. See Note 10(a), Pension Plan, for additional details.

Other increases included $4,157 in restricted liabilities for bond fund-projects, $3,053 in other post-employment benefit obligations as a result of higher actuarially determined annual required contribution, $2,891 in unearned revenues, including $1,189 in grant advance received from FEMA and the State Office of Emergency Services for the Rim Fire projects, $566 in credits due to other City departments for work order billings, $391 in credits to MID and TID due to billing true up, $377 in deposits for various custom work projects, $232 in deposits from DAS and the Hunters Point Shipyard project, $130 in utility taxes payable, and $15 in credits for CleanPowerSF retail and commercial customers, offset by a $9 decrease in prepaid rent.

General liability increased by $577 based on actuarial estimates, and due from CleanPowerSF to Hetchy Power increased by $387. The increases were offset by a decrease of $5,224 in outstanding accounts payable to vendors and contractors for services, and a decrease of $1 in bond and loan interest payable. Deferred inflows of resources decreased by $5,705 due to pensions based on actuarial report.

Hetchy Water

Hetchy Water's net position of $168,356 increased by $45,645 or 37.2% resulting from increases of $57,019 in total assets, $8,913 in deferred outflows of resources and a decrease in deferred inflows of resources of $2,567, offset by $22,854 increases in total liabilities (see Table 1B). Increase in current and other assets of $43,155 was attributed to $43,126 increase in restricted and unrestricted cash and investment with City Treasury due primarily to $60,000 transfer from the Water Enterprise to fund upcountry projects, and $336 in vendor prepayments. These increases were offset by decreases of $256 in charges for service receivables primarily from decreased consumption for Lawrence Livermore National Laboratory, $33 in inventory from more issuances than purchases, $14 in interest receivables from pooled

investment resulting from lower average cash balance and $4 from advance paid to the Recreation and Parks Department for the Civic Center Garage.

Capital assets, net of accumulated depreciation and amortization, increased by $13,864 or 12.2% to $127,731 primarily due to increases in facilities, improvements, machinery, and equipment for Mountain Tunnel Improvement, Moccasin Facilities New Construction, and San Joaquin Pipeline Rehabilitation. Deferred outflows of resources increased by $8,913 due to pensions based on actuarial report.

Hetchy Water's total liabilities increased by $22,854 or 81.1% to $51,046, as explained by increases of $19,142 in net pension liability due to investment losses, the Appeals Court's elimination of the full funding requirement for certain members, and the impact of the revised demographic assumptions and change in discount rate, $3,767 increase in restricted liabilities related to Water bond-funded upcountry projects, $1,335 in other post-employment benefit obligations as a result of higher actuarially determined annual required contribution, $539 in grant advance received from FEMA and the State Office of Emergency Services for the Rim Fire projects, and $233 in general liability based on actuarial estimates. The increases were offset by decreases of $2,124 in outstanding payables to vendors and contractors for services, and $35 in employee related benefits including workers' compensation, vacation and sick leave, and accrued payroll, and $3 decrease in prepaid rent. Deferred inflows of resources decreased by $2,567 due to pensions based on actuarial report.

Hetchy Power

Hetchy Power's net position of $401,686 increased by $11,783 or 3.0% resulting from an increase of $36,647 in total assets, $10,895 in deferred outflows of resources and a decrease in deferred inflows of resources of $3,138, offset by an increase of $38,897 in total liabilities (see Table 1C). CleanPowerSF is presented as part of Hetchy Power in fiscal year 2016. Current and other assets increased by $10,039 or 4.3%, due primarily to increases of $10,722 in restricted and unrestricted cash and investment with City Treasury and outside City Treasury due to $20,058 commercial paper issuance, offset by $8,174 CleanPowerSF cash and investments with City Treasury from prior year. A working capital loan of $7,250 due to Hetchy Power from CleanPowerSF was eliminated upon consolidation. Interest receivables increased by $198 due to higher averaged cash balance during fiscal year 2017, including $8 from CleanPowerSF in prior year. Other increases included $193 in other receivables for DAS and $77 in vendor prepayments.

Other decreases included $5,503 in charges for services receivables primarily due to $2,963 receivables from CleanPowerSF electricity sales in prior year, and $2,540 decreased electricity sales due to no sales of excess power to TID; $1,566 in prior year collections from the FEMA and the State Office of Emergency Services for the Rim Fire projects, $259 receivables for various custom work projects, $42 in inventory due to more issuances than purchases, $13 from advance paid to the Recreation and Parks Department for the Civic Center Garage, and $5 in travel advance. Receivables due from other City departments decreased by $1,013 as explained by $748 repayments to Mayor's Energy Conservation Account, $549 payment from Water Enterprise for DAS, $103 repayment from the Wastewater Enterprise for the Living Machine System, offset by $387 increase in receivables for electricity sales from Hetchy Power to CleanPowerSF.

Capital assets, net of accumulated depreciation and amortization, increased by $26,608 or 9.2% to $316,990 primarily due to additions of facilities, improvements, machinery, and equipment for Mountain Tunnel Improvement, Moccasin Facilities New Construction, and Transbay Transit Center. Deferred outflows of resources increased by $10,895 due to pensions based on actuarial report.

Hetchy Power's total liabilities of $172,548 increased by $38,897 or 29.1%. As of June 30, 2017, outstanding debts increased by $17,505 attributable to $20,058 commercial paper issuance in February 2017, offset by $2,011 in principal repayments, $288 redemption of 2012 NCREBs, and $254 in

amortization of premium and discount. Other liabilities of $79,652, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $21,392 or 36.7%. Net pension liability increased by $23,396 due to investment losses, the Appeals Court's elimination of the full funding requirement for certain members, and the impact of the revised demographic assumptions and change in discount rate, $2,250 increase in unearned revenues, including $650 in grant advance received from FEMA and the State Office of Emergency Services for the Rim Fire projects, $566 in credits due to other City departments for work order billings, $391 in credits to MID and TID due to billing true up, $377 in deposits for various custom work projects, $232 in deposits from DAS and Hunters Point Shipyard Project, $40 in utility taxes payable, offset by a $6 decrease in prepaid rent. Other increases included $1,631 in other post-employment benefit obligations as a result of higher actuarially determined annual required contribution, $390 in restricted liabilities for bond fund-projects, and $344 in general liability based on actuarial estimates.

The increases in other liability were offset by decreases of $6,580 in accounts payable to vendors and contractors for services, of which $1,722 was related to CleanPowerSF accounts payable in prior year, and $38 in employee related benefits including workers' compensation, vacation and sick leave, and accrued payroll, and slight decrease of $1 in bond and loan interest payable. Deferred inflows of resources decreased by $3,138 due to pensions based on actuarial report.

CleanPowerSF

CleanPowerSF's net position of $8,218 included $19,600 in total assets offset by $11,382 in total liabilities (see Table 1D). Total assets of $19,600 comprised of $14,048 in cash and investment with City Treasury from electricity sales, $5,528 in charges for services receivables from billings, $17 in interest receivables and $7 in vendor prepayment.

Total liabilities of $11,382 comprised of $7,250 working capital loan from Hetchy Power, $3,480 in accounts payables, $387 in payable to Hetchy Power for purchased electricity, $90 in utility tax and electric energy surcharge tax payable from increased electricity sales, $87 in other post-employment benefit obligations as a result of actuarially determined annual required contribution, $73 in employee related benefits including vacation, sick leave and accrued payroll and $15 in unearned revenues for credits to retail and commercial customers.

Results of Operations

The following tables summarize Hetch Hetchy's revenues, expenses, and changes in net position:

Table 2A - Consolidated Hetch Hetchy
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018, 2017, and 2016

	2018	2017	2016 *	2018-2017 Change	2017-2016 Change
Revenues:					
Charges for services	$ 191,667	189,664	164,474	2,003	25,190
Rents and concessions	296	315	262	(19)	53
Interest and investment income	2,929	1,853	1,280	1,076	573
Other non-operating revenues	11,311	12,384	12,456	(1,073)	(72)
Total revenues	206,203	204,216	178,472	1,987	25,744
Expenses:					
Operating expenses	197,615	194,130	148,495	3,485	45,635
Interest expenses	3,204	3,270	3,355	(66)	(85)
Amortization of premium, discount, and issuance costs	(248)	(255)	(122)	7	(133)
Other non-operating expenses	1,795	1,476	1,744	319	(268)
Total expenses	202,366	198,621	153,472	3,745	45,149
Change in net position before transfers	3,837	5,595	25,000	(1,758)	(19,405)
Transfers from the City and County of San Francisco	30,087	60,100	1,385	(30,013)	58,715
Transfers to the City and County of San Francisco	(512)	(49)	(705)	(463)	656
Net transfers	29,575	60,051	680	(30,476)	59,371
Change in net position	33,412	65,646	25,680	(32,234)	39,966
Net position at beginning of year					
Beginning of year, as previously reported	578,260	512,614	486,934	65,646	25,680
Cumulative effect of accounting change	(4,396) **	–	–	(4,396)	–
Beginning of year as restated	573,864	512,614	486,934	61,250	25,680
Net position at end of year	$ 607,276	578,260	512,614	29,016	65,646

*Excluded $403 electricity sales and electricity purchases between CleanPowerSF and Hetchy Power.
**Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

Table 2B - Hetchy Water
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018, 2017, and 2016

	2018	2017	2016	2018-2017 Change	2017-2016 Change
Revenues:					
Charges for services	$ 33,427	35,008	38,624	(1,581)	(3,616)
Rents and concessions	133	142	118	(9)	24
Interest and investment income (loss)	218	46	(38)	172	84
Other non-operating revenues	1,237	616	200	621	416
Total revenues	35,015	35,812	38,904	(797)	(3,092)
Expenses:					
Operating expenses	39,792	50,099	36,536	(10,307)	13,563
Other non-operating expenses	68	68	68	–	–
Total expenses	39,860	50,167	36,604	(10,307)	13,563
Change in net position before transfers	(4,845)	(14,355)	2,300	9,510	(16,655)
Transfers from the City and County of San Francisco	30,000	60,000	–	(30,000)	60,000
Change in net position	25,155	45,645	2,300	(20,490)	43,345
Net position at beginning of year					
Beginning of year, as previously reported	168,356	122,711	120,411	45,645	2,300
Cumulative effect of accounting change	(1,721) *	–	–	(1,721)	–
Beginning of year as restated	166,635	122,711	120,411	43,924	2,300
Net position at end of year	$ 191,790	168,356	122,711	23,434	45,645

*Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

(Continued)

Table 2C - Hetchy Power
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018, 2017, and 2016

		2018	2017	2016*	2018-2017 Change	2017-2016 Change
Revenues:						
Charges for services	$	118,672	120,789	125,850	(2,117)	(5,061)
Rents and concessions		163	173	144	(10)	29
Interest and investment income		2,537	1,718	1,318	819	400
Other non-operating revenues		10,073	11,764	12,256	(1,691)	(492)
Total revenues		131,445	134,444	139,568	(2,999)	(5,124)
Expenses:						
Operating expenses		119,395	116,935	111,959	2,460	4,976
Interest expenses		3,103	3,200	3,355	(97)	(155)
Amortization of premium, discount, and issuance costs		(248)	(255)	(122)	7	(133)
Other non-operating expenses		1,727	1,408	1,676	319	(268)
Total expenses		123,977	121,288	116,868	2,689	4,420
Change in net position before transfers		7,468	13,156	22,700	(5,688)	(9,544)
Transfers from the City and County of San Francisco		87	100	1,385	(13)	(1,285)
Transfers to the City and County of San Francisco		(512)	(49)	(705)	(463)	656
Net transfers		(425)	51	680	(476)	(629)
Change in net position		7,043	13,207	23,380	(6,164)	(10,173)
Net position at beginning of year						
Beginning of year, as previously reported		401,686	389,903	366,523	11,783	23,380
Cumulative effect of accounting change		(2,103) **	–	–	(2,103)	–
Less: CleanPowerSF beginning net position		–	(1,424)	–	1,424	(1,424)
Beginning of year as restated		399,583	388,479	366,523	11,104	21,956
Net position at end of year	$	406,626	401,686	389,903	4,940	11,783

* $367 electricity sales and $36 electricity purchases between CleanPowerSF and Hetchy Power excluded in fiscal year 2016.
**Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

Table 2D - CleanPowerSF
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018 and 2017

		2018	2017	2018-2017 Change
Revenues:				
Charges for services	$	39,568	33,867	5,701
Interest and investment income		174	89	85
Other non-operating revenues		1	4	(3)
Total revenues		39,743	33,960	5,783
Expenses:				
Operating expenses		38,428	27,096	11,332
Interest expenses		101	70	31
Total expenses		38,529	27,166	11,363
Change in net position		1,214	6,794	(5,580)
Net position at beginning of year				
Beginning of year, as previously reported		8,218	1,424	6,794
Cumulative effect of accounting change		(572) *	—	(572)
Beginning of year as restated		7,646	1,424	6,222
Net position at end of year	$	8,860	8,218	642

*Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

(Continued)

Result of Operations, Fiscal Year 2018

Hetch Hetchy

Hetch Hetchy's total revenues were $206,203, an increase of $1,987 or 1% over prior year (see Table 2A). Charges for services were $191,667, an increase of $2,003 or 1.1%, due to increase of $5,701 from CleanPowerSF electricity sales to retail and commercial customers, offset by decreases of $2,117 from Hetchy Power due primarily to decreased sales to non-City customers, and $1,581 from Hetchy Water mainly due to decreased water assessment fees from the Water Enterprise to fund upcountry water-related costs. Hetch Hetchy's total expenses were $202,366, an increase of $3,745 or 1.9% over prior year.

Hetchy Water

Hetchy Water's total revenues were $35,015, a decrease of $797 or 2.2% from prior year's revenues (see Table 2B). Charges for services were $33,427, a decrease of $1,581 or 4.5% mainly due to a decrease of $2,000 water assessment fees from the Water Enterprise to fund upcountry water-related costs, offset by an increase of $418 from Lawrence Livermore National Laboratory due to higher consumption. Rents decreased by $9 due to lower Moccasin cottage rentals. Other non-operating revenues increased by $621 mainly due to $1,050 grant revenue from Association of Bay Area Governments for Lower Cherry Aqueduct Emergency Rehabilitation Project, and $17 from miscellaneous revenue, offset by decreases of $431 from prior year Rim Fire insurance recoveries, and $15 in net gain on sale of assets. Interest and investment income increased by $172 due to $769 in interest earned resulting from higher interest rates and higher cash balances, offset by an increase in unrealized loss of $597 attributed to decline in market value in cash and investments with City Treasury.

Total operating expenses were $39,792, a decrease of $10,307 or 20.6% due to $7,482 in personnel services for lower pensions and personnel costs, $3,161 in other operating expenses mainly due to increased capitalized project expenses, $390 decrease in legal services provided by City Attorney, $282 in general and administrative expenses mainly due to judgments and claims based on actuarial estimates, and $60 in building, construction and equipment maintenance supplies. These decreases were offset by increases of $561 in depreciation and amortization related to building, structure and equipment, and $507 in contractual services mainly for engineering services. Other non-operating expenses of $68 related to the Summer Youth Program for Garden Project remained the same from prior year. Transfer in of $30,000 was received from the Water Enterprise to fund upcountry projects.

As a result of the above activities, net position for the year ended June 30, 2018 increased by $23,434 or 13.9% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were $131,445, a decrease of $2,999 or 2.2% from prior year's revenues (see Table 2C). Charges for services were $118,672, a decrease of $2,117 or 1.8% was primarily due to $7,658 in power sales to MID, offset by increases of $2,359 electricity sales to other City departments, $1,677 sales to other retail customers mainly from San Francisco Port operations, and $1,491 in sale of electricity to CleanPowerSF. Rents decreased by $10 due to lower Moccasin cottage rentals.

Other non-operating revenues decreased by $1,691 or 14.4% included $2,984 lower collection from Power System Impact Mitigation Project, $751 from prior year Rim Fire insurance recovery, $45 in Federal interest subsidy due to sequestration, $37 in grant advance received from FEMA for the Rim Fire projects in prior year, and $9 in miscellaneous revenue; offset by increases of $1,000 in fees collected from DAS, $838 from energy efficiency projects, $134 in Cap and Trade revenues, $85 in annual license fee received from

San Francisco Port Transbay Cable Project, $28 in collection from Sunnydale Parcel Q Housing project, $27 in overhead charges, and $23 in net gain on sale of assets. Interest and investment income increased by $819 due to $1,651 interest earned resulting from higher interest rates, offset by an increase in unrealized loss of $832 attributed to decline in market value in cash and investments with City Treasury.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $2,460 or 2.1% to $119,395 due to $7,674 in energy supply purchases and $5,791 in transmission and distribution power cost due to powerhouse shut down and to fulfill the balancing reserve requirement, $824 in depreciation and amortization related to building, structure and equipment, $610 in contractual services primarily due to increased software licensing fees, $136 in general and administrative expenses mainly due to judgments and claims based on actuarial estimates, and promotion expenses; and $31 in safety material and supplies. These increases were offset by decreases $10,011 in personnel services mainly due to lower pensions, $1,727 in other operating expenses mainly due to increased capitalized project expenses, and $868 decrease in legal services provided by City Attorney.

Other non-operating expenses increased by $319 or 22.7% to $1,727 due to higher payments for GoSolarSF Incentive Program. Interest expense decreased by $97 was due to higher capitalized interest for capital projects. Amortization of premium and discount slightly decreased by $7. Net transfer of $425 included transfers out of $480 to Department of Emergency Management for Heating, Ventilation, and Air Conditioning (HVAC) controls upgrade, and $32 to the Office of the City's Administrator for the Surety Bond Program; offset by transfer in of $87 refund from the Police Department for the HVAC Controls Upgrade Phase I project.

As a result of the above activities, net position for the year ended June 30, 2018 increased by $4,940 or 1.2% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were $39,743, an increase of $5,783 or 17.0% over prior year's revenues (see Table 2D). Increase of $5,701 or 16.8% in charges for services included $5,666 increased electricity sales to retail and commercial customers due to consumption increase of 103,146 MWh or 23% and $47 in capacity sale, offset by a decrease of $12 from prior year electricity sales to Hetchy Power. Interest and investment income was $174, an increase of $85 or 95.5% due to higher interest rates. Other non-operating revenues decreased by $3 resulting from lower opt out termination fees collected from customers.

Total operating expenses, excluding interest expenses were $38,428, an increase of $11,332 or 41.8% from prior year. The increase was due to $7,860 in purchased electricity and transmission, distribution and other power costs from higher sales, including $1,608 or 84.9% increase in purchased electricity from Hetchy Power, $1,025 in professional and contractual services for customer billing and program development, $937 in personnel services mainly due to pensions, and $811 in services provided by other departments mainly from legal services provided by City Attorney and communication services. General and administrative increased by $526 mainly due to increases of $190 in judgments and claims expense, $180 in tax, license and permits for Pacific Gas & Electric Company (PG&E), and $144 in membership fees. Other operating expenses increased by $174 for administrative, data scheduling and procurement support. These increases were offset by $1 decrease in material and supplies. Other non-operating expense increased by $31 due to higher interest rate on loan repayment to Hetchy Power.

As a result of the above activities, net position for the year ended June 30, 2018 increased by $642 or 7.8% compared to prior year.

Result of Operations, Fiscal Year 2017

Hetch Hetchy

Hetch Hetchy's total revenues were $204,216, an increase of $25,744 or 14.4% over prior year (see Table 2A). Charges for services were $189,664, an increase of $25,190 or 15.3%, due to increases of $30,118 from CleanPowerSF electricity sales to retail and commercial customers, offset by decreases of $5,061 from Hetchy Power due primarily to a $7,480 decrease in electricity sales to non-City customers, $3,749 CleanPowerSF electricity sales from prior year, offset by increases of $3,913 in sales to other City departments and $1,526 in CleanPowerSF electricity purchased from Hetchy Power. CleanPowerSF was presented as part of Hetchy Power in fiscal year 2016. Hetchy Water charges for services decreased by $3,616 mainly due to decreased water assessment fees of $2,000 or 5% from the Water Enterprise to fund upcountry water-related costs, and $1,625 decreased sale of water from Lawrence Livermore National Laboratory. Hetch Hetchy's total expenses were $198,621, an increase of $45,149 or 29.4% over prior year.

Hetchy Water

Hetchy Water's total revenues were $35,812, a decrease of $3,092 or 7.9% from prior year's revenues (see Table 2B). Charges for services decreased by $3,616 mainly due to decreased water assessment fees of $2,000 from the Water Enterprise to fund upcountry water-related costs, and $1,625 decreased consumption from Lawrence Livermore National Laboratory. The decreases were offset by increases of other non-operating revenues of $416, including $417 from Rim Fire insurance recoveries, $21 in net gain on sale of assets, $10 in miscellaneous revenues, offset by a decrease of $32 from Hunters Point custom work project. Other increases included $84 in interest and investment income and $24 in rent from Moccasin cottage rentals.

Total expenses were $50,167, an increase of $13,563 or 37.1%. Personnel service increased by $9,815 mainly resulting from increased pension expense, $2,977 in other operating expenses due to higher projects spending mainly for San Joaquin Pipeline Rehabilitation Project and Moccasin Facilities New Construction Project, $631 in depreciation and amortization related to increased capitalizable facilities and improvement, and $147 in general and administrative expenses mainly due to $639 increased judgments and claims based on actuarial estimates, offset by decreases of $510 in taxes, licenses, and permits related to national park service. Contractual services increased by $115 in engineering services. These increases were offset by decreases of $92 in legal services provided by the City Attorney, and $30 in safety and office supplies. Net transfer in of $60,000 was received from the Water Enterprise to fund upcountry projects.

As a result of the above activities, net position for the year ended June 30, 2017 increased by $45,645 or 37.2% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were $134,444, a decrease of $5,124 or 3.7% from prior year's revenues (see Table 2C). Decrease of $5,061 in charges for services mainly explained by $3,749 electricity sales from CleanPowerSF in prior year, net of $403 sales from prior year between Hetchy Power and CleanPowerSF. Other decreases in charges for services included $7,480 decreased sales to non-City customers mainly due to no excess power sales to TID, offset by increased electricity sales of $3,913 to other City departments due to 6% adopted average rate increase, $1,526 to CleanPowerSF, and $326 to Hunters Point and Treasure Island.

Other non-operating revenues decreased by $492 due to $2,148 in collection from Power System Impact Mitigation Projects, $317 of one-time settlement from PG&E received in prior year, $135 in generator rental revenue, $15 from Hunters Point and Candlestick Point custom work project and $8 reduction in Federal interest subsidy due to sequestration. These decreases were offset by increases of $956 from Rim Fire insurance recoveries, $915 in Cap and Trade revenues, $195 in fees collected from DAS, $37 in grant advance received from the FEMA for the Rim Fire projects, $25 in net gain from sales of assets, and $3 in miscellaneous revenues. Interest and investment income increased by $400 due to higher cash balance resulting from $20,058 commercial paper issuance, and rents increased by $29 due to Moccasin cottage rentals.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $4,976 or 4.4% to $116,935 due to increases of $11,329 mainly resulting from increased pension expense, $697 in increased capital projects spending for the Mountain Tunnel Improvement Project and Moccasin Facilities New Construction Project, and $586 in depreciation and amortization related to increased capitalizable facilities and improvement. These increases were offset by decreases of $3,063 in purchased electricity due to higher generation from powerhouses, $2,759 in transmission and distribution power costs due to credit received from California Independent System Operator for excess power generated, $681 in legal services provided by the City Attorney, $577 in contractual services primarily due to discontinuance of certain software licenses, $339 in building and construction supplies, $217 in decreased general and administrative expenses due primarily to $160 in taxes, licenses, and permits related to national park service, and $105 in litigation expenses.

Interest expense decreased by $155 was due to higher capitalized interest for capital projects. Amortization of premium, discount, and issuance costs increased by $133 mainly due to issuance cost for 2015 Series AB revenue bond and 2015 NCREBs in prior year. Other non-operating expenses decreased by $268 or 16% to $1,408 due to fewer payments for Solar Incentive Program. Net transfer of $51 included $100 from the Mayor's Office to fund the Tenderloin Streetlight Replacement Project, offset by $32 transfer to the Office of the City's Administrator for the Surety Bond Program and $17 to Sheriff's Department for Lighting Energy Efficiency Retrofit Project.

As a result of the above activities, net position for the year ended June 30, 2017 increased by $11,783 or 3% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were $33,960 (see Table 2D). Charges for services were $33,867 which included $33,855 in electricity sales to retail and commercial customers and $12 in electricity sales to Hetchy Power.

Total operating expenses, excluding interest expenses were $27,096. Purchased electricity and transmission, distribution and other power costs were $22,437, including $1,893 in purchase of electricity from Hetchy Power, $1,570 in general and administrative and other mainly from $1,068 for administrative, data, scheduling and procurement support and $502 in taxes, licenses and permits. Other operating expenses included $1,213 in personnel services, $1,141 in contractual services from Calpine (Noble)'s customer billing and administrative support, $734 in services provided by other departments mainly from legal services provided by City Attorney, communication services and Hetchy Power support and $1 in material and supplies.

Other non-operating revenues and expenses were $23 which included $89 in interest earnings and $4 in termination fees collected from customers offset by $70 in interest expenses incurred on loan repayment to Hetchy Power.

As a result of the above activities, net position for the year ended June 30, 2017 was $8,218.

Capital Assets

The following tables summarize Hetch Hetchy's changes in capital assets.

Table 3A - Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2018, 2017 and 2016

	2018	2017	2016	2018-2017 Change	2017-2016 Change
Hetch Hetchy					
Facilities, improvements, machinery, and equipment	$ 339,409	315,880	286,898	23,529	28,982
Intangible assets	26,315	26,776	27,237	(461)	(461)
Land and rights-of-way	5,181	4,787	4,665	394	122
Construction work in progress	108,517	97,278	85,449	11,239	11,829
Total	479,422	444,721	404,249	34,701	40,472
Hetchy Water					
Facilities, improvements, machinery, and equipment	97,038	86,787	72,737	10,251	14,050
Intangible assets	11,203	11,410	11,618	(207)	(208)
Land and rights-of-way	3,232	3,055	3,003	177	52
Construction work in progress	28,326	26,479	26,509	1,847	(30)
Total	139,799	127,731	113,867	12,068	13,864
Hetchy Power					
Facilities, improvements, machinery, and equipment	242,371	229,093	214,161	13,278	14,932
Intangible assets	15,112	15,366	15,619	(254)	(253)
Land and rights-of-way	1,949	1,732	1,662	217	70
Construction work in progress	80,191	70,799	58,940	9,392	11,859
Total	$ 339,623	316,990	290,382	22,633	26,608

Capital Assets, Fiscal Year 2018

Hetch Hetchy

Hetch Hetchy has capital assets of $479,422, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2018 (see Table 3A). This amount represents an increase of $34,701 or 7.8%, resulting from increases of $23,529 in facilities, improvements, machinery, and equipment, $11,239 in construction work in progress, and $394 in land and rights-of-way; offset by a decrease of $461 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

Major additions to construction work in progress, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2018 include the following:

Table 3B - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2018

	Hetchy Water	Hetchy Power	2018 Total
Cherry Dam Outlet Works Rehabilitation	$ 3,688	4,507	8,195
Moccasin Facilities New Construction	2,779	3,397	6,176
Mountain Tunnel Improvement	2,185	2,671	4,856
2018 Moccasin Storm	3,414	273	3,687
Warnerville Substation Rehabilitation	—	3,595	3,595
San Joaquin Pipeline Rehabilitation	2,615	—	2,615
Tenderloin Street Improvement	—	2,371	2,371
Bay Corridor Transmission and Distribution	—	2,285	2,285
Treasure Island Capital Improvements	—	2,127	2,127
Other project additions individually below $2,000	2,360	15,341	17,701
Additions to Construction Work in Progress	$ 17,041	36,567	53,608
Moccasin Facilities Upgrades	$ 9,087	11,109	20,196
Cherry Dam Outlet Works Rehabilitation	4,557	5,570	10,127
Streetlight Light-Emitting Diode Conversion	—	7,652	7,652
O'Shaughnessy Dam Improvement	504	616	1,120
Other project additions individually below $1,000	962	2,207	3,169
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	$ 15,110	27,154	42,264

Hetchy Water

Hetchy Water has capital assets of $139,799, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2018 (see Table 3A). This amount represents an increase of $12,068 or 9.4%, primarily due to increases of $10,251 in facilities, improvements, machinery, and equipment, $1,847 in construction work in progress, and $177 in land and rights-of-way; offset by a decrease of $207 in intangible assets due to amortization.

For the year ended June 30, 2018, Hetchy Water's major additions to construction work in progress totaled $17,041. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $15,110 (see Table 3B).

Hetchy Power

Hetchy Power has capital assets of $339,623, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2018 (see Table 3A). This amount represents an increase of $22,633 or 7.1%, primarily due to increases of $13,278 in facilities, improvements, machinery, and equipment, $9,392 in construction work in progress, and $217 in land and rights-of-way; offset by a decrease of $254 in intangible assets due to amortization.

For the year ended June 30, 2018, Hetchy Power's major additions to construction work in progress totaled $36,567. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $27,154 (see Table 3B).

CleanPowerSF

CleanPowerSF had no capital assets as of June 30, 2018 and 2017.

See Note 4 for additional information about capital assets.

Capital Assets, Fiscal Year 2017

Hetch Hetchy

Hetch Hetchy has capital assets of $444,721, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2017 (see Table 3A). This amount represents an increase of $40,472 or 10%, resulting from increases of $28,982 in facilities, improvements, machinery, and equipment, $11,829 in construction work in progress, and $122 in land and rights-of-way; offset by a decrease of $461 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

Major additions to construction work in progress, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2017 include the following:

Table 3C - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2017

	Hetchy Water	Hetchy Power	2017 Total
Mountain Tunnel Improvement	$ 5,369	6,561	11,930
Moccasin Facilities New Construction	3,513	4,293	7,806
San Joaquin Pipeline Rehabilitation	6,816	—	6,816
Transbay Transit Center	—	5,012	5,012
Streetlight Light-Emitting Diode (LED) Conversion	—	2,089	2,089
Other project additions individually below $2,000	2,682	21,831	24,513
Additions to Construction Work in Progress	$ 18,380	39,786	58,166
Mountain Tunnel Improvement	$ 3,668	4,484	8,152
Streetlight LED Conversion	—	3,090	3,090
San Joaquin Pipeline Rehabilitation	3,051	—	3,051
3rd Street Corridor Rehabilitation	—	1,615	1,615
O'Shaughnessy Dam Drum Gate Automation	602	735	1,337
Other project additions individually below $1,200	11,026	17,980	29,006
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	$ 18,347	27,904	46,251

Hetchy Water

Hetchy Water has capital assets of $127,731, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2017 (see Table 3A). This amount represents an increase of $13,864 or 12.2%, primarily due to increases of $14,050 in facilities, improvements,

machinery, and equipment, and $52 in land and rights-of-way; offset by decreases of $208 in amortization of intangible assets, and $30 in construction work in progress.

For the year ended June 30, 2017, Hetchy Water's major additions to construction work in progress totaled $18,380. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $18,347 (see Table 3C).

Hetchy Power

Hetchy Power has capital assets of $316,990, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2017 (see Table 3A). This amount represents an increase of $26,608 or 9.2%, primarily due to increases of $14,932 in facilities, improvements, machinery, and equipment, $11,859 in construction work in progress, and $70 in land and rights-of-way; offset by a decrease of $253 in amortization of intangible assets.

For the year ended June 30, 2017, Hetchy Power's major additions to construction work in progress totaled $39,786. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $27,904 (see Table 3C).

CleanPowerSF

CleanPowerSF had no capital assets as of June 30, 2017 and 2016.

See Note 4 for additional information about capital assets.

Debt Administration

Hetch Hetchy

As of June 30, 2018, Hetch Hetchy has outstanding certificates of participation, Clean Renewable Energy Bonds (CREBs), Qualified Energy Conservation Bonds (QECBs), New Clean Renewable Energy Bonds (NCREBs), 2015 Series AB revenue bonds, and commercial paper. The aforementioned debts are obligations of the Power Enterprise. See Hetchy Power section below for more details.

Hetchy Water

Hetchy Water did not have debt outstanding as of June 30, 2018 and 2017. Debt, including bond issuances, associated with the funding of water-related, upcountry infrastructure capital improvements is issued through the Water Enterprise, and is reflected in the Water Enterprise's financial statements.

Hetchy Power

As of June 30, 2018, and 2017, Hetchy Power had outstanding debt of $90,102 and $92,896, respectively, as shown in Table 4. More detailed information about the Hetchy Power's debt activity is presented in Notes 6, 7 and 8 to the financial statements.

CleanPowerSF

CleanPowerSF did not have any debt outstanding as of June 30, 2018 and 2017.

Table 4 - Hetchy Power
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2018, 2017 and 2016

	2018	2017	2016	2018-2017 Change	2017-2016 Change
Clean Renewable Energy Bonds 2008	$ 2,047	2,453	2,861	(406)	(408)
Certificates of Participation 2009 Series C	1,988	2,345	2,688	(357)	(343)
Certificates of Participation 2009 Series D (BABs)	12,593	12,593	12,593	–	–
Qualified Energy Conservation Bonds 2011	5,294	5,817	6,334	(523)	(517)
New Clean Renewable Energy Bonds 2012	1,283	1,839	2,661	(556)	(822)
New Clean Renewable Energy Bonds 2015	3,651	3,877	4,100	(226)	(223)
2015 Series A Revenue Bonds	35,720	35,851	35,976	(131)	(125)
2015 Series B Revenue Bonds	7,246	8,063	8,178	(817)	(115)
Commercial Paper	20,280	20,058	–	222	20,058
Total	$ 90,102	92,896	75,391	(2,794)	17,505

The decrease of $2,794 was mainly due to $2,764 in principal repayments, and $252 in amortization of premium and discount; offset by an increase of $222 in commercial paper issuance.

Credit Ratings and Bond Insurance – The Enterprise's 2015 Series AB Power Revenue Bonds have been rated "AA-" and "A+" by Fitch Inc. and Standard and Poor's (S&P), respectively, as of June 30, 2018 and 2017.

Debt Service Coverage – Pursuant to the Indenture, the Enterprise is required to collect sufficient net revenues each fiscal year, together with any Available Funds (except Bond Reserve Funds) which include unappropriated fund balances and reserves, and cash and book value of investments held by the Treasurer for the Hetchy Power, that the SFPUC reasonably expects would be available, to pay principal and interest becoming due and payable on all outstanding bonds as provided in the Indenture, less any refundable credits, at least equal to 1.25 times annual debt service for said fiscal year. The Series 2015 AB power revenue bonds represent the first series of senior lien revenue bonds of Hetchy Power. Pursuant to Power's Master Trust Indenture, senior lien debt service coverage excludes debt service on subordinate obligations, such as Hetchy Power's existing CREBS, NCREBs, and QECBs. Because interest on the Series 2015 AB power revenue bonds was capitalized, Hetchy Power was not obligated to make debt service payments on the Series 2015 AB power revenue bonds until fiscal year 2018. Therefore, Hetchy Power did not calculate and report the Indenture-based debt service coverage ratio prior to fiscal year 2018. During fiscal year 2018, the Enterprise's net revenues, together with fund balances available to pay debt service and not budgeted to be expended, were sufficient to meet the rate covenant requirements under the Enterprise's Indenture (see Note 8).

Debt Authorization – Pursuant to Charter Section 9.107(6), the Power Enterprise can incur indebtedness upon three-fourths vote of the Board of Supervisors, for the purpose of the reconstruction or replacement of existing water facilities and electric power facilities, or combinations thereof, under the jurisdiction of the Public Utilities Commission. Pursuant to Charter Section 9.107(8), the Power Enterprise can issue revenue bonds, without voter approval, upon an affirmative vote of the Board of Supervisors, for the purpose of the acquisition, construction, installation, equipping, improvement, or rehabilitation of equipment or facilities for renewable energy and energy conservation. Pursuant to Proposition A, approved by the San Francisco voters on June 5, 2018, City Charter Section 8B.124 is amended to authorize the Power Enterprise to enter into indebtedness, including revenue bonds, notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors to reconstruct, replace, expand, repair, improve or construct new power facilities under the jurisdiction of SFPUC or for any other purpose of the Power Enterprise, and in compliance with City Charter Section 8B.124. Proposition A

expressly prohibits the SFPUC from issuing bonds to finance the construction of power plants that generate electricity using fossil fuels or nuclear energy. As of June 30, 2018, and 2017, $39,555 of Hetchy Power revenue bonds were issued against existing authorization of $144,830.

Cost of Debt Capital – The Enterprise's outstanding long-term senior lien debt consists of the 2015 Series AB Power Revenue Bonds issued in May 2015, which are the first series of bonds issued under the Master Indenture and are senior in lien to all of the other Enterprise's outstanding debt obligations. Coupon interest rates range from 3.0% to 5.0%. The Enterprise has previously issued and incurred debt service on Tax Credit Bonds and certificates of participation, which constitute subordinate obligations. Interest rates on the Tax Credit Bonds, which include QECBs and NCREBs, range from 1.2% to 1.5% (net of the federal tax subsidy). Certificates of participation carried interest rates range from 2.0% to 6.5%. The Enterprise's short-term debt issued under its commercial paper program has interest rates ranging from 0.72% to 1.64% during fiscal years 2018 and 2017.

Rates and Charges

Hetchy Water

Hetchy Water charges for services relates to the storage and delivery of water. Assessment fees from the Water Enterprise, which cover the water-related upcountry costs, were $32,600 and $34,600 for the years ended June 30, 2018 and 2017, respectively. In fiscal year 2019, the assessment fees will be $33,578, an increase of $978 or 3% as reflected in the fiscal year 2019 adopted budget. Hetch Hetchy charges for services related to the storage and delivery of water, including providing electricity to contractual and municipal customers.

Hetchy Power

Municipal Rates

Hetchy Power charges for services relates to power generation and electricity delivery to contractual and municipal customers. For municipal power services, customers are typically charged a General Use rate or Enterprise rate. Enterprise rates are charged based on projected PG&E equivalent rates by customer class. General fund department customers are mostly charged a General Use rate, a rate that is currently below cost of service. These General Use rates, however, are moving closer towards cost of service and increasing by $0.005 per kWh on an annual basis. The Commission adopted General Use rates ranged from $0.03500/kWh to $0.10630/kWh in fiscal year 2017 and $0.04000/kWh to $0.11130/kWh in fiscal year 2018. The General Use rates have been adopted every two years.

On May 10, 2018, the Commission adopted a new General Use rate that consolidated six previous subcategories of General Use rates into a single rate. The Commission adopted two years of General Use rates effective July 1, 2018 through June 30, 2020. The adopted General Use rate for fiscal year 2019 is $0.07377/kWh. The Power Enterprise continues to develop rates under the cost of service analysis model and has started work on the next power rate study which is projected to be completed in 2020.

For fiscal year 2017, the MID and TID class one rates were $0.05126/kWh and $0.04644/kWh, respectively. Per the MID and TID contracts through the end of fiscal year 2017, MID and TID rates are trued up every year based on actual costs.

Retail Rates

The Commission approved a new schedule of retail electric rates, fees, and charges for residential, commercial, and industrial customers where Hetch Hetchy has been designated as the power provider for retail customers to be applied to meter readings on or after July 1, 2016. Total bundled service charges for residential service rates and low-income residential service rates are calculated using the total rates, monthly, based on monthly meter reading, plus any applicable taxes.

To date, Hetchy Power has prepared service standards, developed system plans and specifications, acquired materials and equipment, and initiated construction of primary distribution facilities.

Pursuant to City and County of San Francisco Charter Section 8B.125, an independent rate study is performed at least once every five years. The rate study is undertaken to examine future revenue requirements and cost-of-service of the Power Enterprise. In fall 2015, SFPUC engaged a consultant to perform a cost-of-service study. The informed rate setting from this study resulted in recommendation and approval by the Commission in the spring 2016 for rates to be effective July 1, 2016. The SFPUC Rates Schedules and Fees is available at http://sfwater.org/modules/showdocument.aspx?documentid=7743. Work is underway on the next power rate study which is projected to be completed in 2020 and provide power rates effective for fiscal year 2021.

CleanPowerSF Rates

CleanPowerSF began offering services in May 2016, giving residential and commercial electricity consumers in San Francisco a choice of having their electricity supplied from clean renewable sources, such as solar and wind, at competitive rates. Through resolution 17-0074, the Commission approved rates and charges on April 11, 2017, to be effective July 1, 2017. CleanPowerSF offers two products: a "Green" product comprised of at least 40% renewable energy and a "SuperGreen" product comprised of 100% renewable energy. Most customers take service under the "Green" product rates and remaining customers have opted to upgrade to "SuperGreen" product rates. On January 23, 2018, Commission took action on SuperGreen rates which resulted in a reduction to SuperGreen rate premiums effective March 1, 2018. The adopted SuperGreen rates varied depending upon customer classes and reflect the program's policy objective to remain competitive with PG&E comparable rates. Through resolution 18-0056, the Commission approved rates and charges on April 10, 2018, to be effective July 1, 2018, and each successive July 1 thereafter, the Commission authorizes the SFPUC General Manager to adjust rates not otherwise adjusted by Commission action. The CleanPowerSF Rate schedule is available at http://sfwater.org/index.aspx?page=993.

CleanPowerSF revenues are adequate to support its own operations; the SFPUC intends that these rates be sufficient to pay for impending projects, and be financially independent from Hetch Hetchy in the future. CleanPowerSF is subject to Section 8B.125 of the City Charter, which requires an independent rate study be performed at least once every five years, and the Commission sets rates and charges for the program. CleanPowerSF rates will be included in the next power rate study which is projected to be completed in 2020.

Request for Information

This report is designed to provide our citizens, customers, investors, and creditors with an overview of Hetch Hetchy's finances and to demonstrate Hetch Hetchy's respective accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional information should be addressed to San Francisco Public Utilities Commission, Chief Financial Officer, 525 Golden Gate Avenue, 13th Floor, San Francisco, CA 94102. This report is available at http://www.sfwater.org/index.aspx?page=347.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Net Position

June 30, 2018 and 2017

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	Elimination*	2018 Total	Hetchy Water	Hetchy Power	CleanPowerSF	Elimination*	2017 Total
Assets										
Current assets:										
Cash and investments with City Treasury	$ 78,283	184,193	12,395	–	274,871	75,345	174,633	14,048	–	264,026
Cash and investments outside City Treasury	2	8	–	–	10	2	8	–	–	10
Receivables:										
Charges for services (net of allowance for doubtful accounts from Hetchy Power of $52 and CleanPowerSF of $306 as of June 30, 2018; and $50 of CleanPowerSF as of June 30, 2017)	28	7,273	5,371	–	12,672	42	8,373	5,528	–	13,943
Due from other City departments, current portion	–	980	–	–	980	–	3,282	–	(2,000)	1,282
Due from other governments	53	207	–	–	260	–	244	–	–	244
Interest	263	641	59	–	963	53	191	17	–	261
Restricted interest	–	174	–	–	174	–	268	–	–	268
Total current receivables	344	9,275	5,430	–	15,049	95	12,358	5,545	(2,000)	15,998
Prepaid charges, advances, and other receivables, current portion	462	1,088	2,438	–	3,988	399	415	7	–	821
Inventory	186	215	–	–	401	186	215	–	–	401
Restricted cash and investments outside City Treasury	–	2,777	–	–	2,777	–	3,783	–	–	3,783
Total current assets	79,277	197,556	20,263	–	297,096	76,027	191,412	19,600	(2,000)	285,039
Non-current assets:										
Restricted cash and investments with City Treasury	18,137	23,283	–	–	41,420	4,154	35,998	–	–	40,152
Restricted cash and investments outside City Treasury, less current portion	–	1,038	–	–	1,038	–	–	–	–	–
Capital assets, not being depreciated and amortized	31,564	83,571	–	–	115,135	29,540	73,962	–	–	103,502
Capital assets, net of accumulated depreciation and amortization	108,235	256,052	–	–	364,287	98,191	243,028	–	–	341,219
Charges for services, less current portion	–	–	–	–	–	–	28	–	–	28
Prepaid charges, advances, and other receivables, less current portion	164	793	–	–	957	169	804	–	–	973
Due from other City departments, less current portion	–	15,353	–	(5,601)	9,752	–	15,164	–	(5,250)	9,914
Total non-current assets	158,100	380,090	–	(5,601)	532,589	132,054	368,984	–	(5,250)	495,788
Total assets	237,377	577,646	20,263	(5,601)	829,685	208,081	560,396	19,600	(7,250)	780,827
Deferred outflows of resources:										
Pensions	7,488	9,152	323	–	16,963	12,659	15,473	–	–	28,132
Other post-employment benefits	870	1,064	40	–	1,974	–	–	–	–	–
Total deferred outflows of resources	8,358	10,216	363	–	18,937	12,659	15,473	–	–	28,132
Liabilities										
Current liabilities:										
Accounts payable	810	14,495	4,080	–	19,385	433	6,904	3,480	–	10,817
Accrued payroll	638	1,654	53	–	2,345	686	1,647	35	–	2,368
Accrued vacation and sick leave, current portion	835	1,504	46	–	2,385	741	1,388	25	–	2,154
Accrued workers' compensation, current portion	174	351	–	–	525	185	363	–	–	548
Damage claims liability, current portion	110	727	–	–	837	218	773	–	–	991
Due to other City departments, current portion	–	–	–	–	–	–	–	2,387	(2,000)	387
Unearned revenues, refunds, and other, current portion	8	6,256	73	–	6,337	3	3,141	105	–	3,249
Bond and loan interest payable	–	525	–	–	525	–	533	–	–	533
Bonds, current portion	–	2,480	–	–	2,480	–	2,437	–	–	2,437
Certificates of participation, current portion	–	348	–	–	348	–	331	–	–	331
Commercial paper	–	20,280	–	–	20,280	–	20,058	–	–	20,058
Current liabilities payable from restricted assets	6,403	5,423	–	–	11,826	4,027	2,968	–	–	6,995
Total current liabilities	8,978	54,043	4,252	–	67,273	6,293	40,543	6,032	(2,000)	50,868
Long-term liabilities:										
Other post-employment benefits obligations	15,872	19,400	728	–	36,000	11,280	16,855	87	–	28,222
Net pension liability	25,216	30,819	1,087	–	57,122	31,235	38,177	–	–	69,412
Accrued vacation and sick leave, less current portion	488	1,060	18	–	1,566	447	1,009	13	–	1,469
Accrued workers' compensation, less current portion	815	1,609	–	–	2,424	814	1,607	–	–	2,421
Damage claims liability, less current portion	123	1,506	–	–	1,629	368	1,079	–	–	1,447
Due to other City departments, less current portion	–	–	5,601	(5,601)	–	–	–	5,250	(5,250)	–
Bonds, less current portion	–	52,761	–	–	52,761	–	55,463	–	–	55,463
Unearned revenues, refunds, and other, less current portion	609	3,552	–	–	4,161	609	3,208	–	–	3,817
Certificates of participation, less current portion	–	14,233	–	–	14,233	–	14,607	–	–	14,607
Total long-term liabilities	43,123	124,940	7,434	(5,601)	169,896	44,753	132,005	5,350	(5,250)	176,858
Total liabilities	52,101	178,983	11,686	(5,601)	237,169	51,046	172,548	11,382	(7,250)	227,726
Deferred inflows of resources:										
Related to pensions	1,818	2,222	79	–	4,119	1,338	1,635	–	–	2,973
Other post-employment benefits	26	31	1	–	58	–	–	–	–	–
Total deferred inflows of resources	1,844	2,253	80	–	4,177	1,338	1,635	–	–	2,973
Net position:										
Net investment in capital assets	139,799	270,918	–	–	410,717	127,731	260,681	–	–	388,412
Restricted for debt service	–	834	–	–	834	–	485	–	–	485
Restricted for capital projects	11,712	–	–	–	11,712	–	–	–	–	–
Unrestricted	40,279	134,874	8,860	–	184,013	40,625	140,520	8,218	–	189,363
Total net position	$ 191,790	406,626	8,860	–	607,276	168,356	401,686	8,218	–	578,260

*Included interfund loan receivable and loan payable of $5,601 and $7,250 for fiscal year ended 2018 and 2017, between Hetchy Power and CleanPowerSF.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2018 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2017 Total
Operating revenues:								
Charges for services	$ 33,427	118,672	39,568	191,667	35,008	120,789	33,867	189,664
Rents and concessions	133	163	–	296	142	173	–	315
Total operating revenues	33,560	118,835	39,568	191,963	35,150	120,962	33,867	189,979
Operating expenses:								
Personnel services	14,516	34,950	2,150	51,616	21,998	44,961	1,213	68,172
Contractual services	1,524	5,526	2,166	9,216	1,017	4,916	1,141	7,074
Transmission/distribution and other power costs	–	24,238	231	24,469	–	18,447	214	18,661
Purchased electricity	–	10,197	30,066	40,263	–	2,523	22,223	24,746
Materials and supplies	1,101	1,541	–	2,642	1,161	1,510	1	2,672
Depreciation and amortization	5,066	14,049	–	19,115	4,505	13,225	–	17,730
Services provided by other departments	1,572	5,848	1,545	8,965	1,962	6,716	734	9,412
General and administrative and other	16,013	23,046	2,270	41,329	19,456	24,637	1,570	45,663
Total operating expenses	39,792	119,395	38,428	197,615	50,099	116,935	27,096	194,130
Operating income (loss)	(6,232)	(560)	1,140	(5,652)	(14,949)	4,027	6,771	(4,151)
Non-operating revenues (expenses):								
Federal and state grants	1,050	–	–	1,050	–	37	–	37
Interest and investment income	218	2,537	174	2,929	46	1,718	89	1,853
Interest expenses	–	(3,103)	(101)	(3,204)	–	(3,200)	(70)	(3,270)
Amortization of premium, discount, and issuance costs	–	248	–	248	–	255	–	255
Net gain from sale of assets	6	49	–	55	21	26	–	47
Other non-operating revenues	181	10,024	1	10,206	595	11,701	4	12,300
Other non-operating expenses	(68)	(1,727)	–	(1,795)	(68)	(1,408)	–	(1,476)
Net non-operating revenues	1,387	8,028	74	9,489	594	9,129	23	9,746
Change in net position before transfers	(4,845)	7,468	1,214	3,837	(14,355)	13,156	6,794	5,595
Transfers from the City and County of San Francisco	30,000	87	–	30,087	60,000	100	–	60,100
Transfers to the City and County of San Francisco	–	(512)	–	(512)	–	(49)	–	(49)
Net transfers	30,000	(425)	–	29,575	60,000	51	–	60,051
Change in net position	25,155	7,043	1,214	33,412	45,645	13,207	6,794	65,646
Net position at beginning of year	168,356	401,686	8,218	578,260	122,711	389,903	1,424	514,038
Cumulative effect of accounting change*	(1,721)	(2,103)	(572)	(4,396)	–	–	–	–
Less: CleanPowerSF beginning net position	–	–	–	–	–	(1,424)	–	(1,424)
Beginning of year as restated	166,635	399,583	7,646	573,864	122,711	388,479	1,424	512,614
Net position at end of year	$ 191,790	406,626	8,860	607,276	168,356	401,686	8,218	578,260

*Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2018 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2017 Total
Cash flows from operating activities:								
Cash received from customers, including cash deposits	$ 33,441	125,278	39,693	198,412	35,264	126,062	31,407	192,733
Cash received from tenants for rent	138	170	–	308	139	169	–	308
Cash paid to employees for services	(12,560)	(35,449)	(1,234)	(49,243)	(12,813)	(33,376)	(1,053)	(47,242)
Cash paid to suppliers for goods and services	(19,080)	(61,142)	(39,972)	(120,194)	(24,465)	(60,730)	(24,495)	(109,690)
Cash paid for judgments and claims	(1,356)	(2,005)	(190)	(3,551)	(1,045)	(2,150)	–	(3,195)
Net cash provided by (used in) operating activities	583	26,852	(1,703)	25,732	(2,920)	29,975	5,859	32,914
Cash flows from non-capital and related financing activities:								
Cash received from grants	997	37	–	1,034	540	2,254	–	2,794
Cash received for license fees	–	4,467	–	4,467	–	3,148	–	3,148
Cash received from miscellaneous revenues	181	4,651	1	4,833	595	8,438	4	9,037
Cash received from settlements	–	3	–	3	–	3	–	3
Cash paid for rebates, program incentives, and other	(68)	(1,727)	–	(1,795)	(68)	(1,408)	–	(1,476)
Cash paid for Hetchy Power loan interest	–	–	(83)	(83)	–	–	(70)	(70)
Transfers from the City and County of San Francisco	30,000	87	–	30,087	60,000	100	–	60,100
Transfers to the City and County of San Francisco	–	(512)	–	(512)	–	(49)	–	(49)
Net cash provided by (used in) non-capital financing activities	31,110	7,006	(82)	38,034	61,067	12,486	(66)	73,487
Cash flows from capital and related financing activities:								
Acquisition and construction of capital assets	(14,786)	(33,820)	–	(48,606)	(15,101)	(40,063)	–	(55,164)
Proceeds from sale of capital assets	6	130	–	136	21	26	–	47
Principal payments on long-term debt	–	(2,768)	–	(2,768)	–	(2,298)	–	(2,298)
Proceeds from commercial paper borrowings	–	222	–	222	–	20,058	–	20,058
Interest paid on long-term debt	–	(3,305)	–	(3,305)	–	(3,460)	–	(3,460)
Interest paid on commercial paper borrowings	–	(219)	–	(219)	–	–	–	–
Federal interest income subsidy	–	756	–	756	–	532	–	532
Net cash used in capital and related financing activities	(14,780)	(39,004)	–	(53,784)	(15,080)	(25,205)	–	(40,285)
Cash flows from investing activities:								
Interest Income	658	2,956	196	3,810	112	1,747	87	1,946
Proceeds from sale of investments outside City Treasury	–	4,990	–	4,990	–	3,051	–	3,051
Purchases of investments outside City Treasury	–	(3,446)	–	(3,446)	–	(3,056)	–	(3,056)
Net cash provided by investing activities	658	4,500	196	5,354	112	1,742	87	1,941
Increase (decrease) in cash and cash equivalents	17,571	(646)	(1,589)	15,336	43,179	18,998	5,880	68,057
Cash and cash equivalents:								
Beginning of year	79,546	211,921	14,054	305,521	36,367	192,923	8,174	237,464
End of year	$ 97,117	211,275	12,465	320,857	79,546	211,921	14,054	305,521
Reconciliation of cash and cash equivalents to the statements of net position:								
Cash and investments with City Treasury:								
Unrestricted	$ 78,283	184,193	12,395	274,871	75,345	174,633	14,048	264,026
Restricted	18,137	23,283	–	41,420	4,154	35,998	–	40,152
Cash and investments outside City Treasury:				–				
Unrestricted	2	8	–	10	2	8	–	10
Restricted	–	3,815	–	3,815	–	3,783	–	3,783
Less: Restricted (with maturity more than 90 days - see table in Note 3)	–	(1,038)	–	(1,038)	–	(2,582)	–	(2,582)
Less: Unrealized loss on investments	695	1,014	70	1,779	45	81	6	132
Cash and cash equivalents at end of year on statements of cash flows	$ 97,117	211,275	12,465	320,857	79,546	211,921	14,054	305,521

(Continued)

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2018 Total	Hetchy Water	Hetchy Power	CleanPowerSF	2017 Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	$ (6,232)	(560)	1,140	(5,652)	(14,949)	4,027	6,771	(4,151)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	5,066	14,049	–	19,115	4,505	13,225	–	17,730
Provision for uncollectible accounts	–	52	256	308	–	–	50	50
Write-off of capital assets	28	30	–	58	499	983	–	1,482
Changes in operating assets and liabilities:								
Receivables:								
Charges for services	14	1,076	(99)	991	256	2,540	(2,615)	181
Prepaid charges, advances, and other	(58)	(375)	(2,431)	(2,864)	(332)	(13)	(7)	(352)
Due from other City departments	–	2,026	–	2,026	–	1,130	–	1,130
Inventory	–	–	–	–	33	42	–	75
Accounts payable	377	7,591	600	8,568	(2,124)	(4,858)	1,758	(5,224)
Accrued payroll	(48)	7	18	(23)	62	82	35	179
Other post-employment benefits obligations	2,027	(591)	30	1,466	1,335	1,631	87	3,053
Pension obligations	(368)	(450)	843	25	7,662	9,363	–	17,025
Accrued vacation and sick leave	135	167	26	328	(99)	(123)	38	(184)
Accrued workers' compensation	(10)	(10)	–	(20)	2	3	–	5
Damage claims liability	(353)	381	–	28	233	344	–	577
Due to other City departments	–	–	(2,054)	(2,054)	–	–	(363)	(363)
Unearned revenues, refunds, and other liabilities	5	3,459	(32)	3,432	(3)	1,599	105	1,701
Total adjustments	6,815	27,412	(2,843)	31,384	12,029	25,948	(912)	37,065
Net cash provided by (used in) operating activities	$ 583	26,852	(1,703)	25,732	(2,920)	29,975	5,859	32,914
Noncash transactions:								
Accrued capital asset costs	$ 6,403	5,423	–	11,826	4,027	2,968	–	6,995
Payables to Hetchy Power	–	–	5,601	5,601	–	–	7,637	7,637
Receivables from CleanPowerSF	–	5,601	–	5,601	–	7,637	–	7,637
Receivables from Wastewater	–	1,061	–	1,061	1,166	–	–	1,166
Unrealized loss on investments	695	1,014	70	1,779	45	81	6	132

See accompanying notes to financial statements.

(1) Description of Reporting Entity

San Francisco Hetch Hetchy Water and Power (Hetch Hetchy or the Enterprise) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City and County of San Francisco (the City). CleanPowerSF, launched in May 2016, provides green electricity from renewable sources to residential and commercial customers in San Francisco and was reported as part of Hetchy Power in fiscal year 2016. Hetch Hetchy is a stand-alone enterprise comprised of three funds, Hetchy Power (aka the Power Enterprise), CleanPowerSF and Hetchy Water, the portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service. Hetch Hetchy accounts for the activities of Hetch Hetchy Water and Power and is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource, as well as the City Power services including energy efficiency and renewables.

Approximately 81% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, San Francisco General Hospital, streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 19% balance of electricity is sold to CleanPowerSF and other utility districts. As a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to the Districts to cover their agricultural pumping and municipal load needs and any remaining energy is either sold to other municipalities and/or government agencies (not for resale) or sold into the California Independent System Operator (CAISO). Hetch Hetchy operation is an integrated system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the CAISO, and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO, and FERC forums and continues to monitor regulatory proceedings.

Until August 1, 2008, the San Francisco Public Utilities Commission (SFPUC) consisted of five members, all appointed by the Mayor. Proposition E, a City and County of San Francisco Charter amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the SFPUC, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the SFPUC, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four-year terms for SFPUC members and requires them to meet the following qualifications:

- Seat 1 must have experience in environmental policy and an understanding of environmental justice issues.
- Seat 2 must have experience in ratepayer or consumer advocacy.
- Seat 3 must have experience in project finance.
- Seat 4 must have expertise in water systems, power systems, or public utility management.
- Seat 5 is an at-large member.

The SFPUC is a department of the City, and as such, the financial operations of Hetch Hetchy, Wastewater, and the Water Enterprises are included in the Comprehensive Annual Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of Hetch Hetchy. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2018 and 2017, and the changes in its financial position, or, where applicable, the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

(2) Significant Accounting Policies

(a) *Basis of Accounting and Measurement Focus*

The accounts of Hetch Hetchy are organized on the basis of proprietary fund types and are included as enterprise funds of the City. The activities of Hetch Hetchy and each fund are accounted for with a separate set of self-balancing accounts that comprise Hetch Hetchy's and each fund's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The financial activities of Hetch Hetchy are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. GAAP. Under this method, all assets and liabilities associated with operations are included on the statements of net position, revenues are recognized when earned, and expenses are recognized when liabilities are incurred. Operating revenues are defined as charges to customers and rental income.

Hetch Hetchy applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

(b) *Cash and Cash Equivalents*

Hetch Hetchy considers its pooled deposits and investments held with the City Treasury to be demand deposits and, therefore, cash and cash equivalents for financial reporting. The City Treasury also holds non-pooled cash and investments for the Enterprise. Non-pooled restricted deposits and restricted deposits and investments held outside the City Treasury with original maturities of three months or less are considered to be cash equivalents.

(c) *Investments*

Money market funds are carried at cost, which approximates fair value. All other investments are stated at fair value based upon quoted market prices. Changes in fair value are recognized as investment gains or losses and are recorded as a component of non-operating revenues.

(d) *Inventory*

Inventory consists primarily of construction materials and maintenance supplies and is valued at average cost. Inventory is expensed as it is consumed.

(e) *Capital Assets*

Capital assets are defined as assets with an initial individual cost of more than $5 and an estimated useful life in excess of one year. Capital assets with an original acquisition date prior to July 1, 1977 are recorded in the financial statements at estimated cost, as determined by an independent professional appraisal, or at cost, if known. All subsequent acquisitions have been recorded at cost. All donated capital assets are valued at acquisition value at the time of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from 1 to 100 years for equipment and 1 to 200 years for buildings, structures, and improvements. No depreciation or amortization is recorded in the year of acquisition, and depreciation or amortization is recorded in the year of disposal.

(f) *Intangible Assets*

Under GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* intangible assets are defined as identifiable, non-financial assets capable of being separated, sold, transferred, or licensed, and include contractual or legal rights. Examples of intangible assets include rights-of-way easements, land use rights, water rights, licenses, and permits. The accounting pronouncement also provides guidance on the capitalization of internally generated intangible assets, such as the development and installation of computer software by or on behalf of the reporting entity.

According to the standard, Hetch Hetchy is required to capitalize intangible assets with a useful life extending beyond one reporting period. Hetch Hetchy has established a capitalization threshold of $100. GASB Statement No. 51 also requires amortization of intangible assets over the benefit period, except for certain assets having an indefinite useful life. Assets with an indefinite useful life generally provide a benefit that is not constrained by legal or contractual limitations or any other external factor and, therefore, are not amortized (see Note 4).

(g) *Construction Work In Progress*

The cost of acquisition and construction of major plant and equipment is recorded as construction work in progress. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

(h) *Capitalization of Interest*

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets (see Note 4).

(i) *Bond Discount, Premium, and Issuance Costs*

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method.

(j) *Accrued Vacation and Sick Leave*

Accrued vacation pay, which may be accumulated up to 10 weeks per employee, is charged to expense as earned. Sick leave earned subsequent to December 6, 1978 is non-vesting and may be accumulated up to six months per employee.

(k) *Workers' Compensation*

The Enterprise is self-insured for workers' compensation claims and accrues the estimated cost of those claims, including the estimated cost of incurred but not reported claims (see Note 12(c)).

(l) *General Liability*

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding claims, including adverse loss development and estimated incurred but not reported claims (see Note 12(a)).

(m) *Arbitrage Rebate Payable*

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements of the Clean Renewable Energy Bonds (CREBs), the Qualified Energy Conservation Bonds (QECBs), and the New Clean Renewable Energy Bonds (NCREBs) stipulate that the first payment of excess investment earnings, if any, is required to be rebated to the federal government, no later than 60 days after the end of the fifth bond year of the agreement. Hetch Hetchy did not have any arbitrage liability as of June 30, 2018 and 2017.

(n) *Income Taxes*

As a department of a government agency, the Enterprise is exempt from both federal income taxes and California State franchise taxes.

(o) *Revenue Recognition*

Water and power revenues are based on water and power consumption and billing rates. Generally, customers are billed monthly. Revenues earned but unbilled are accrued as charges for services receivables on the Statements of Net Position.

(p) *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

(q) ***Eliminations***

Eliminations for internal activities between the Hetchy Power and CleanPowerSF are made in the Statements of Net Position. There were activities requiring eliminations during the fiscal years ended June 30, 2018 and 2017.

(r) *Accounting and Financial Reporting for Pollution Remediation Obligations*

According to GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the cleanup;
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; or
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As a part of ongoing operations, situations may occur requiring the removal of pollution or other hazardous material. These situations typically arise in the process of acquiring an asset, preparing an asset for its intended use, or during the Design Phase of projects under review by the project managers. Other times, pollution may arise during the implementation and construction of a major or minor capital project. Examples of pollution may include, but are not limited to, asbestos or lead paint removal; leaking of sewage in underground pipes or neighboring areas; chemical spills; removal and disposal of known toxic waste; harmful biological and chemical pollution of water; or contamination of surrounding soils by underground storage tanks (see Note 13(c)).

(s) *Other Post-employment Benefits Other Than Pensions (OPEB)*

As prescribed under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value.

The provision of GASB Statement No. 75 is effective for Hetch Hetchy's year ending June 30, 2018. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of July 1, 2017 as follows:

Record Beginning Net OPEB Liability	$	34,399
Record Beginning Deferred Outflows of Resources - OPEB items		(1,781)
Remove Net OPEB Obligation (Change from GASB Statement No. 45)		(28,222)
Total Cumulative Effect of Change in Accounting Principle	$	4,396

(t) *New Accounting Standards Adopted in Fiscal Year 2018*

1) In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other Than Pension Plans*. GASB Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provides their employees with other post-employment benefits other than pensions (OPEB). The new standard is effective for periods beginning after June 15, 2017. The Enterprise adopted the provisions of this Statement. Refer to Note 10(b) for details.

2) In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split-interest agreement created through trusts in which a donor irrevocably transfers resources to an intermediary. The new standard is effective for periods beginning after December 15, 2016. The enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

3) In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. GASB Statement No. 85 addresses practice issues identified during the implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2017. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

4) In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. GASB Statement No. 86 improves accounting and financial reporting for in-substance defeasance of debt using existing resources other than proceeds of refunding debt. The new standard is effective for periods beginning after June 15, 2017. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

(u) *GASB Statements Implemented in Fiscal Year 2017*

1) In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB Statement No. 73 addresses accounting and financial reporting for pensions provided by governments that are not within the scope of GASB Statement No. 68. The new standard is effective for periods beginning after June 15, 2016. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

2) In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The new standard is effective for periods beginning after December 15, 2015. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

3) In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided by state or local governments through a cost-sharing plan that meets the criteria of Statement No. 68 and is not a state or local governmental pension plan. The new standard is effective for periods beginning after December 15, 2015. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

(v) *Future Implementation of New Accounting Standards*

1) In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB Statement No. 83 establishes accounting and financial reporting standards for certain asset retirement obligations (AROs). The new standard is effective for periods beginning after June 15, 2018. The Enterprise will implement the provisions of Statement No. 83 in fiscal year 2019.

2) In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 establishes criteria for state and local governments to identify fiduciary activities and how those activities should be reported. The new standard is effective for periods beginning after December 15, 2018. The Enterprise will implement the provisions of Statement No. 84 in fiscal year 2020.

3) In June 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease liabilities that currently are not reported. The new standard is effective for periods beginning after December 15, 2019. The Enterprise will implement the provisions of Statement No. 87 in fiscal year 2021.

4) In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The new standard is effective for periods beginning after June 15, 2018. The Enterprise will implement the provisions of Statement No. 88 in fiscal year 2019.

5) In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. The new standard is effective for periods beginning after December 15, 2019. The Enterprise will implement the provisions of Statement No. 89 in fiscal year 2021.

6) In August 2018, the GASB issued Statement No. 90, *Accounting and Financial Reporting for Majority Equity Interests*. GASB Statement No. 90 provides clarification when a government should report a majority equity interest in a legally separate organization as either a component unit or an investment. The new standard is effective for periods beginning after December 15, 2018. The Enterprise will implement the provisions of Statement No. 90 in fiscal year 2020.

(3) Cash, Cash Equivalents, and Investments

Hetch Hetchy's cash, cash equivalents, and investments with the City Treasury are invested in an unrated City pool pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy guidelines are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio, which may be invested in certain instruments with longer terms to maturity. The City Treasurer allocates income from the investment of pooled cash at month-end in proportion to Hetch Hetchy's average daily cash balances. The primary objectives of Hetch Hetchy's investment policy are consistent with the City and County's policy.

Restricted assets are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The balances as of June 30, 2018 and 2017 were $3,815 and $3,783, respectively. The Enterprise held all investments in guaranteed investment contracts, treasury and government obligations, commercial paper, corporate bonds, and notes, as well as money market mutual funds consisting of treasury and government obligations. The balance as of June 30, 2018 included 2015 Series A bonds proceeds of $2,132, certificates of participation proceeds of $1,177, 2015 Series B bonds proceeds of $501, commercial paper of $5, and $10 held at a commercial bank in a non-interest bearing checking account that is covered by depository insurance. The balance as of June 30, 2017 included 2015 Series A bonds proceeds of $2,113, certificates of participation proceeds of $1,171, 2015 Series B bonds proceeds of $497, commercial paper of $2 and $10 held at a commercial bank in a non-interest bearing checking account that is covered by depository insurance.

The restricted cash and investments outside City Treasury as of June 30, 2018 and 2017 included $0 and $2 unrealized gain due to changes in fair values on U.S. Agencies, respectively.

Hetch Hetchy categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

The following is a summary of the Hetch Hetchy restricted and unrestricted cash and investments outside City Treasury and the fair value hierarchy as of June 30, 2018 and 2017.

Hetch Hetchy Cash and Investments outside City Treasury

		June 30, 2018			Fair Value Measurements Using		
Investments	Credit Ratings (S&P/Moody's)	Maturities	Fair Value	Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Agencies	AA+/Aaa	March 20, 2020	$ 1,038	–	–	1,038	–
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	2,772	2,772	–	–	–
Cash and Cash Equivalents	N/A		5	5	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 3,815	2,777	–	1,038	–
Cash and Cash Equivalents	N/A		10	10	–	–	–
Total Cash and Investments outside City Treasury			$ 10	10	–	–	–

(Continued)

Hetch Hetchy Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2017 Maturities	Fair Value	Investments exempt from fair value	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Agencies	AA+/Aaa	October 13, 2017	$ 2,582	–	–	2,582	–
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days	1,201	1,201	–	–	–
Total Restricted Cash and Investments outside City Treasury			$ 3,783	1,201	–	2,582	–
Cash and Cash Equivalents	N/A		10	10	–	–	–
Total Cash and Investments outside City Treasury			$ 10	10	–	–	–

For fiscal year 2018, proceeds from 2015 Series A and B bonds held as restricted cash and investments outside City Treasury in the amount of $2,633 were invested in U.S. Treasury Money Market with maturity date less than 90 days, and $5 in cash and cash equivalents. The credit ratings of the U.S. Treasury Money Market as of June 30, 2018 were "AAAm" by S&P and "Aaa-mf" by Moody's. For fiscal year 2017, proceeds from 2015 Series A and B bonds held as restricted cash and investments outside City Treasury in the amount of $2,582 were invested in U.S. Agencies with a maturity date of October 13, 2017. The credit ratings of the U.S. Agencies as of June 30, 2017 were "AA+" by S&P and "Aaa" by Moody's.

Hetch Hetchy's cash, cash equivalents, and investments are shown on the accompanying Statements of Net Position as of June 30, 2018 and 2017:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total 2018
Current assets:				
Cash and investments with City Treasury	$ 78,283	184,193	12,395	274,871
Cash and investments outside City Treasury	2	8	–	10
Restricted cash and investments outside City Treasury	–	2,777	–	2,777
Non-current assets:				
Restricted cash and investments with City Treasury	18,137	23,283	–	41,420
Restricted cash and investments outside City Treasury	–	1,038	–	1,038
Total cash, cash equivalents, and investments	$ 96,422	211,299	12,395	320,116

	Hetchy Water	Hetchy Power	CleanPowerSF	Total 2017
Current assets:				
Cash and investments with City Treasury	$ 75,345	174,633	14,048	264,026
Cash and investments outside City Treasury	2	8	–	10
Restricted cash and investments outside City Treasury	–	3,783	–	3,783
Non-current assets:				
Restricted cash and investments with City Treasury	4,154	35,998	–	40,152
Total cash, cash equivalents, and investments	$ 79,501	214,422	14,048	307,971

(Continued)

The following table shows the percentage distribution of the City's pooled investment by maturity:

	Investment maturities (in months)			
Fiscal years ended June 30	Under 1	1 to less than 6	6 to less than 12	12 to 60
2018	14.3%	22.1%	18.5%	45.1%
2017	20.1%	21.2%	18.0%	40.7%

(4) Capital Assets

(a) Hetch Hetchy capital assets as of June 30, 2018 and 2017 consist of the following:

Capital assets with a useful life of 50 years or greater include buildings and structures, reservoirs, dams, power stations, certain water mains and pipelines, transmission and distribution systems, tunnels, and bridges.

	2017	Increases	Decreases	2018
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 4,787	394	—	5,181
Intangible assets	1,437	—	—	1,437
Construction work in progress	97,278	53,608	(42,369) *	108,517
Total capital assets not being depreciated and amortized	103,502	54,002	(42,369)	115,135
Capital assets being depreciated and amortized:				
Facilities and improvements	603,694	38,912	—	642,606
Intangible assets	45,715	—	—	45,715
Machinery and equipment	128,041	3,352	(996)	130,397
Total capital assets being depreciated and amortized	777,450	42,264 *	(996)	818,718
Less accumulated depreciation and amortization for:				
Facilities and improvements	(348,258)	(12,851)	—	(361,109)
Intangible assets	(20,376)	(461)	—	(20,837)
Machinery and equipment	(67,597)	(5,803)	915	(72,485)
Total accumulated depreciation and amortization	(436,231)	(19,115)	915	(454,431)
Total capital assets being depreciated and amortized, net	341,219	23,149	(81)	364,287
Total capital assets, net	$ 444,721	77,151	(42,450)	479,422

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $58 in capital project write-offs, mainly related to Communication Systems Upgrades, Road Improvement Project, and San Joaquin Pipeline Rehabilitation Project.

	2016	Increases	Decreases	2017
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 4,665	127	(5)	4,787
Intangible assets	1,437	–	–	1,437
Construction work in progress	85,449	58,166	(46,337) *	97,278
Total capital assets not being depreciated and amortized	91,551	58,293	(46,342)	103,502
Capital assets being depreciated and amortized:				
Facilities and improvements	563,228	40,466	–	603,694
Intangible assets	45,715	–	–	45,715
Machinery and equipment	122,575	5,785	(319)	128,041
Total capital assets being depreciated and amortized	731,518	46,251 *	(319)	777,450
Less accumulated depreciation and amortization for:				
Facilities and improvements	(336,797)	(11,461)	–	(348,258)
Intangible assets	(19,915)	(461)	–	(20,376)
Machinery and equipment	(62,108)	(5,808)	319	(67,597)
Total accumulated depreciation and amortization	(418,820)	(17,730)	319	(436,231)
Total capital assets being depreciated and amortized, net	312,698	28,521	–	341,219
Total capital assets, net	$ 404,249	86,814	(46,342)	444,721

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $1,482 in capital project write-offs, mainly related to Mountain Tunnel Inspection and Repair Projects, Transmission and Distribution System Project, San Joaquin Pipeline Rehabilitation Project, and Oil Containment Project.

(b) Hetchy Water capital assets as of June 30, 2018 and 2017 consist of the following:

	2017	Increases	Decreases	2018
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 3,055	177	–	3,232
Intangible assets	6	–	–	6
Construction work in progress	26,479	17,041	(15,194) *	28,326
Total capital assets not being depreciated and amortized	29,540	17,218	(15,194)	31,564
Capital assets being depreciated and amortized:				
Facilities and improvements	235,604	14,074	–	249,678
Intangible assets	20,522	–	–	20,522
Machinery and equipment	25,535	1,036	(72)	26,499
Total capital assets being depreciated and amortized	281,661	15,110 *	(72)	296,699
Less accumulated depreciation and amortization for:				
Facilities and improvements	(158,429)	(3,638)	–	(162,067)
Intangible assets	(9,118)	(207)	–	(9,325)
Machinery and equipment	(15,923)	(1,221)	72	(17,072)
Total accumulated depreciation and amortization	(183,470)	(5,066)	72	(188,464)
Total capital assets being depreciated and amortized, net	98,191	10,044	–	108,235
Total capital assets, net	$ 127,731	27,262	(15,194)	139,799

* Decrease in construction work in progress includes $28 in capital project write-offs, mainly related to Hetchy Water's share of Communication Systems Upgrades, Road Improvement Project, and San Joaquin Pipeline Rehabilitation Project.

(Continued)

	2016	Increases	Decreases	2017
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 3,003	57	(5)	3,055
Intangible assets	6	–	–	6
Construction work in progress	26,509	18,380	(18,410) *	26,479
Total capital assets not being depreciated and amortized	29,518	18,437	(18,415)	29,540
Capital assets being depreciated and amortized:				
Facilities and improvements	218,618	16,986	–	235,604
Intangible assets	20,522	–	–	20,522
Machinery and equipment	24,318	1,361	(144)	25,535
Total capital assets being depreciated and amortized	263,458	18,347 *	(144)	281,661
Less accumulated depreciation and amortization for:				
Facilities and improvements	(155,343)	(3,086)	–	(158,429)
Intangible assets	(8,910)	(208)	–	(9,118)
Machinery and equipment	(14,856)	(1,211)	144	(15,923)
Total accumulated depreciation and amortization	(179,109)	(4,505)	144	(183,470)
Total capital assets being depreciated and amortized, net	84,349	13,842	–	98,191
Total capital assets, net	$ 113,867	32,279	(18,415)	127,731

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $499 in capital project write-offs, mainly related to Hetchy Water's share of Mountain Tunnel Inspection Projects, and San Joaquin Pipeline Rehabilitation Project.

(c) Hetchy Power capital assets as of June 30, 2018 and 2017 consist of the following:

	2017	Increases	Decreases	2018
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 1,732	217	–	1,949
Intangible assets	1,431	–	–	1,431
Construction work in progress	70,799	36,567	(27,175) *	80,191
Total capital assets not being depreciated and amortized	73,962	36,784	(27,175)	83,571
Capital assets being depreciated and amortized:				
Facilities and improvements	368,090	24,838	–	392,928
Intangible assets	25,193	–	–	25,193
Machinery and equipment	102,506	2,316	(924)	103,898
Total capital assets being depreciated and amortized	495,789	27,154 *	(924)	522,019
Less accumulated depreciation and amortization for:				
Facilities and improvements	(189,829)	(9,213)	–	(199,042)
Intangible assets	(11,258)	(254)	–	(11,512)
Machinery and equipment	(51,674)	(4,582)	843	(55,413)
Total accumulated depreciation and amortization	(252,761)	(14,049)	843	(265,967)
Total capital assets being depreciated and amortized, net	243,028	13,105	(81)	256,052
Total capital assets, net	$ 316,990	49,889	(27,256)	339,623

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $30 in capital project write-offs, mainly related to Hetchy Power's share of Communication Systems Upgrades, and Road Improvement Project.

(Continued)

	2016	Increases	Decreases	2017
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 1,662	70	–	1,732
Intangible assets	1,431	–	–	1,431
Construction work in progress	58,940	39,786	(27,927) *	70,799
Total capital assets not being depreciated and amortized	62,033	39,856	(27,927)	73,962
Capital assets being depreciated and amortized:				
Facilities and improvements	344,610	23,480	–	368,090
Intangible assets	25,193	–	–	25,193
Machinery and equipment	98,257	4,424	(175)	102,506
Total capital assets being depreciated and amortized	468,060	27,904 *	(175)	495,789
Less accumulated depreciation and amortization for:				
Facilities and improvements	(181,454)	(8,375)	–	(189,829)
Intangible assets	(11,005)	(253)	–	(11,258)
Machinery and equipment	(47,252)	(4,597)	175	(51,674)
Total accumulated depreciation and amortization	(239,711)	(13,225)	175	(252,761)
Total capital assets being depreciated and amortized, net	228,349	14,679	–	243,028
Total capital assets, net	$ 290,382	54,535	(27,927)	316,990

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $983 in capital project write-offs, mainly related to Hetchy Power's share of Mountain Tunnel Inspection Projects, Transmission and Distribution System Project, and Oil Containment Project.

During fiscal year 2018, Hetchy Water and Hetchy Power expensed $28 and $30, respectively, related to repair and maintenance costs on various Hetch Hetchy projects. Hetch Hetchy write-offs of $58 collectively were primarily related to projects for Communication Systems Upgrades, Road Improvement, and San Joaquin Pipeline Rehabilitation. During fiscal year 2017, Hetchy Water and Hetchy Power expensed $499 and $983, respectively, related to repair and maintenance costs on various Hetch Hetchy projects. Hetch Hetchy write-offs of $1,482 collectively were primarily related to projects for Mountain Tunnel Inspection and Repair, Transmission and Distribution System, San Joaquin Pipeline Rehabilitation, and Oil Containment.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*, requires that interest expense incurred during construction of assets be capitalized. Interest included in the construction work in progress and total interest expense incurred during the years ended June 30, 2018 and 2017 are as follows:

Hetchy Power	2018	2017
Interest expensed	$ 3,103	3,200
Interest included in construction work in progress	413	259
Total interest incurred	$ 3,516	3,459

(5) Restricted Assets

Pursuant to the Hetchy Power Trust Indenture (the "Indenture"), established in fiscal year 2015, net revenues of the Hetchy Power are pledged first to the 2015 Series AB Bonds, and have a priority lien on the pledge of net revenues to the outstanding CREBs, QECBs, and NCREBs (the "Subordinate Obligations"). The Lease/Purchase Agreements for the Subordinate Obligations pledge the net revenues of the Hetchy Power to these bonds, and such pledge is subordinate in lien to the net revenues pledge for the 2015 Series AB Bonds (the "Bonds" or "Bond").

In the Indenture, the SFPUC covenants and agrees that it will pay into the Revenue Fund as received all Revenues of Hetchy Power and shall be used and applied, as provided by the Indenture, solely for the purposes of operating and maintaining Hetchy Power and paying all costs, charges, and expenses in connection therewith and for the purpose of making repairs, renewals, and replacements to Hetchy Power and constructing additions, betterments, and extensions thereto.

The Indenture provides that Revenues deposited in the Revenue Fund shall be disbursed in the following order of priority:

1. The payment of operation and maintenance expenses;
2. Any priority reconstruction and replacement fund deposits;
3. Deposit in the interest account of each Bond Fund;
4. Deposit in the bond retirement account of each Bond Fund;
5. Deposit in the reserve fund;
6. (i) Payment of principal and premium, if any, and interest on any Subordinate Obligations; (ii) deposit into a reserve fund securing any Subordinate Obligations; (iii) Swap Agreement payments pursuant to Swap Agreements entered into by the SFPUC with respect to any Subordinate Obligations; and (iv) payment to any financial institution or insurance company providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal of or interest on any Subordinate Obligations; in each case in any order of priority within this paragraph which may be hereafter established by the SFPUC by resolution;
7. Any additional reconstruction and replacement fund deposits into the reconstruction and replacement fund;
8. Any necessary or desirable capital additions or improvements to the Hetchy Power;
9. Any payment under a Take-or-Pay Power Purchase Agreement that does not constitute an operation and maintenance expense;
10. Any payment under a Swap Agreement that does not constitute a Swap Agreement payment; and
11. Any other lawful purpose of the SFPUC.

In the Indenture, the SFPUC covenants and agrees to transfer to the Trustee for deposit in the Interest Account of each applicable Bond Fund all Refundable Credits received by the SFPUC.

In accordance with the Agreements, Hetch Hetchy maintains certain restricted cash and investment balances in trust.

(a) Hetchy Water has the following restricted assets held in trust as of June 30, 2018 and 2017:

	2018	2017
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	$ 18,137	4,154
Total restricted assets	$ 18,137	4,154

(b) Hetchy Power has the following restricted assets held in trust as of June 30, 2018 and 2017:

	2018	2017
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	$ 23,283	35,998
Cash and investments outside City Treasury:		
2009 Series C Certificates of participation - 525 Golden Gate	237	236
2009 Series D Certificates of participation - 525 Golden Gate	940	935
2015 Series A Revenue Bonds	2,132	2,113
2015 Series B Revenue Bonds	501	497
Commercial Paper	5	2
Total restricted cash and investments outside City Treasury	3,815	3,783
Interest receivable:		
Hetch Hetchy bond construction fund	174	268
Total restricted assets	$ 27,272	40,049

Restricted assets listed above as cash and investments with City Treasury are held in subfunds accounts within the Hetch Hetchy Revenue Fund.

(6) Short-Term Debt

Effective December 2015, under Charter Sections 9.107(6) and 9.107(8), the Commission and Board of Supervisors authorized the issuance of up to $90,000 in commercial paper notes for the purpose of reconstruction or replacement of existing generation, transmission, and distribution facilities of Hetchy Power. Interest rates for the commercial paper ranged from 0.85% to 1.64% in fiscal year 2018. The Enterprise had $20,280 and $20,058 commercial paper outstanding as of June 30, 2018 and 2017, respectively.

(7) Changes in Long-Term Liabilities

Hetch Hetchy's long-term liability activities for the years ended June 30, 2018 and 2017 are as follows:

	Interest rate	Maturity (Calendar Year)	2017	Additions	Reductions	2018	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,527	–	(418)	2,109	422
Qualified Energy Conservation Bonds	4.74	2027	5,817	–	(523)	5,294	529
New Clean Renewable Energy Bonds 2012	4.74	2020	1,839	–	(556)	1,283	570
New Clean Renewable Energy Bonds 2015	4.62	2032	3,877	–	(226)	3,651	229
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	–	–	32,025	–
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	–	(710)	6,820	730
Less issuance discount			(74)	–	12	(62)	–
Add issuance premiums			4,359	–	(238)	4,121	–
Total bonds payable			57,900	–	(2,659)	55,241	2,480
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,259	–	(331)	1,928	348
2009 Series C COPs issuance premiums			86	–	(26)	60	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	–	–	12,593	–
Other post-employment benefits obligations			28,222	9,244	(1,466)	36,000	–
Net pension liability			69,412	9,387	(21,677)	57,122	–
Accrued vacation and sick leave			3,623	6,218	(5,890)	3,951	2,385
Accrued workers' compensation			2,969	561	(581)	2,949	525
Damage claims liability			2,438	2,975	(2,947)	2,466	837
Total			$ 179,502	28,385	(35,577)	172,310	6,575

	Interest rate	Maturity (Calendar Year)	2016	Additions	Reductions	2017	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,949	–	(422)	2,527	422
Qualified Energy Conservation Bonds	4.74	2027	6,334	–	(517)	5,817	523
New Clean Renewable Energy Bonds 2012	4.74	2020	2,661	–	(822)	1,839	556
New Clean Renewable Energy Bonds 2015	4.62	2032	4,100	–	(223)	3,877	226
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	–	–	32,025	–
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	–	–	7,530	710
Less issuance discount			(88)	–	14	(74)	–
Add issuance premiums			4,599	–	(240)	4,359	–
Total bonds payable			60,110	–	(2,210)	57,900	2,437
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,574	–	(315)	2,259	331
2009 Series C COPs issuance premiums			114	–	(28)	86	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	–	–	12,593	–
Other post-employment benefits obligations			25,169	4,888	(1,835)	28,222	–
Net pension liability			26,874	48,774	(6,236)	69,412	–
Accrued vacation and sick leave			3,807	1,916	(2,100)	3,623	2,154
Accrued workers' compensation			2,964	861	(856)	2,969	548
Damage claims liability			1,861	3,146	(2,569)	2,438	991
Total			$ 136,066	59,585	(16,149)	179,502	6,461

(Continued)

a) Hetchy Water's long-term liability activities for the years ended June 30, 2018 and 2017 are as follows:

	2017	Additions	Reductions	2018	Due within one year
Other post-employment benefits obligations	$ 11,280	5,238	(646)	15,872	–
Net pension liability	31,235	3,639	(9,658)	25,216	–
Accrued vacation and sick leave	1,188	1,655	(1,520)	1,323	835
Accrued workers' compensation	999	207	(217)	989	174
Damage claims liability	586	786	(1,139)	233	110
Total	$ 45,288	11,525	(13,180)	43,633	1,119

	2016	Additions	Reductions	2017	Due within one year
Other post-employment benefits obligations	$ 9,945	2,157	(822)	11,280	–
Net pension liability	12,093	21,948	(2,806)	31,235	–
Accrued vacation and sick leave	1,287	425	(524)	1,188	741
Accrued workers' compensation	997	224	(222)	999	185
Damage claims liability	353	1,082	(849)	586	218
Total	$ 24,675	25,836	(5,223)	45,288	1,144

b) Hetchy Power's long-term liability activities for the years ended June 30, 2018 and 2017 are as follows:

	Interest rate	Maturity (Calendar Year)	2017	Additions	Reductions	2018	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,527	–	(418)	2,109	422
Qualified Energy Conservation Bonds	4.74	2027	5,817	–	(523)	5,294	529
New Clean Renewable Energy Bonds 2012	4.74	2020	1,839	–	(556)	1,283	570
New Clean Renewable Energy Bonds 2015	4.62	2032	3,877	–	(226)	3,651	229
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	–	–	32,025	–
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	–	(710)	6,820	730
Less issuance discount			(74)	–	12	(62)	–
Add issuance premiums			4,359	–	(238)	4,121	–
Total bonds payable			57,900	–	(2,659)	55,241	2,480
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,259	–	(331)	1,928	348
2009 Series C COPs issuance premiums			86	–	(26)	60	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	–	–	12,593	–
Other post-employment benefits obligations			16,855	3,335	(790)	19,400	–
Net pension liability			38,177	4,447	(11,805)	30,819	–
Accrued vacation and sick leave			2,397	4,495	(4,328)	2,564	1,504
Accrued workers' compensation			1,970	354	(364)	1,960	351
Damage claims liability			1,852	2,189	(1,808)	2,233	727
Total			$ 134,089	14,820	(22,111)	126,798	5,410

(Continued)

	Interest rate	Maturity (Calendar Year)	2016	Additions	Reductions	2017	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,949	–	(422)	2,527	422
Qualified Energy Conservation Bonds	4.74	2027	6,334	–	(517)	5,817	523
New Clean Renewable Energy Bonds 2012	4.74	2020	2,661	–	(822)	1,839	556
New Clean Renewable Energy Bonds 2015	4.62	2032	4,100	–	(223)	3,877	226
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	–	–	32,025	–
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	–	–	7,530	710
Less issuance discount			(88)	–	14	(74)	–
Add issuance premiums			4,599	–	(240)	4,359	–
Total bonds payable			60,110	–	(2,210)	57,900	2,437
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,574	–	(315)	2,259	331
2009 Series C COPs issuance premiums			114	–	(28)	86	–
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	–	–	12,593	–
Other post-employment benefits obligations			15,224	2,637	(1,006)	16,855	–
Net pension liability			14,781	26,826	(3,430)	38,177	–
Accrued vacation and sick leave			2,520	1,453	(1,576)	2,397	1,388
Accrued workers' compensation			1,967	637	(634)	1,970	363
Damage claims liability			1,508	2,064	(1,720)	1,852	773
Total			$ 111,391	33,617	(10,919)	134,089	5,292

c) CleanPowerSF's long-term liability activities for the years ended June 30, 2018 and 2017 are as follows:

	2017	Additions	Reductions	2018	Due within one year
Other post-employment benefits obligations	$ 87	671	(30)	728	–
Net pension liability	–	1,301	(214)	1,087	–
Accrued vacation and sick leave	38	68	(42)	64	46
Total	$ 125	2,040	(286)	1,879	46

	2016	Additions	Reductions	2017	Due within one year
Other post-employment benefits obligations	$ –	94	(7)	87	–
Accrued vacation and sick leave	–	38	–	38	25
Total	$ –	132	(7)	125	25

(a) *Clean Renewable Energy Bonds*

In November 2008, Hetchy Power issued $6,325 of taxable CREBs to finance the installation of solar energy equipment on City-owned facilities, including Chinatown Branch Library, Maxine Hall Medical Center, City Distribution Division Warehouse, North Point Wastewater Plant, Chinatown Public Health Center, Municipal Transportation Agency Woods, and Municipal Transportation Agency Ways and Structures. The CREBs were non-rated and privately-placed with Bank of America Leasing. The net effective interest rate on the CREBs, after the federal tax subsidy, is 0% through 2022. Hetchy Power began making principal payments in the amount of $422 on December 15, 2008 and will continue annual payments for 15 years until December 15, 2022. Funding for these payments will be guaranteed by net power revenues. Interest payments are not required, since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

The future annual debt service relating to the CREBs outstanding as of June 30, 2018 is as follows:

Fiscal years ending June 30:	Principal
2019	$ 422
2020	422
2021	422
2022	422
2023	421
	2,109
Less: Current portion	(422)
Less: Unamortized bond discount	(62)
Long-term portion as of June 30, 2018	$ 1,625

(b) *Qualified Energy Conservation Bonds*

In December 2011, Hetchy Power issued $8,291 of taxable QECBs. The QECBs were issued to fund certain qualified green components for the SFPUC's 525 Golden Gate Headquarters project. The QECBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the QECBs, after the federal tax subsidy, is 1.2% through 2028.

The future annual debt service relating to the QECBs outstanding as of June 30, 2018 is as follows:

Fiscal years ending June 30:	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2019	$ 529	245	(171)	74
2020	536	219	(154)	65
2021	542	194	(136)	58
2022	549	168	(118)	50
2023	555	142	(100)	42
2024-2028	2,583	309	(216)	93
	5,294	1,277	(895)	382
Less: Current portion	(529)			
Long-term portion as of June 30, 2018	$ 4,765			

* The SFPUC received IRS notice dated June 21, 2018 that the federal interest subsidy is reduced by 6.2% or a total reduction of $59 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(c) *New Clean Renewable Energy Bonds 2012*

In April 2012, Hetchy Power issued $6,600 of taxable NCREBs. The NCREBs were issued to fund certain qualified facilities that provide clean, renewable energy at Davies Symphony Hall, City Hall, and University Mound Reservoir. The NCREBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the NCREBs, after the federal tax subsidy, is 1.5% through 2021. $288 and $2,523 of principal was prepaid in fiscal year 2017 and 2016, respectively. There was no prepaid in fiscal year 2018.

The future annual debt service relating to the 2012 NCREBs outstanding as of June 30, 2018 is as follows:

Fiscal years ending June 30:	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2019	$ 570	54	(35)	19
2020	583	27	(18)	9
2021	130	3	(2)	1
	1,283	84	(55)	29
Less: Current portion	(570)			
Long-term portion as of June 30, 2018	$ 713			

* The SFPUC received IRS notice dated June 21, 2018 that the federal interest subsidy is reduced by 6.2% or a total reduction of $4 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(d) *New Clean Renewable Energy Bonds 2015*

In October 2015, Hetchy Power issued $4,100 of taxable 2015 NCREBs. The 2015 NCREBs were issued to fund certain qualified clean, renewable energy solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The 2015 NCREBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the 2015 NCREBs, after the federal tax subsidy, is 1.4% through 2033.

The future annual debt service relating to the 2015 NCREBs outstanding as of June 30, 2018 is as follows:

Fiscal years ending June 30:	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2019	$ 229	166	(109)	57
2020	232	155	(102)	53
2021	235	145	(95)	50
2022	239	134	(88)	46
2023	242	123	(81)	42
2024-2028	1,262	442	(290)	152
2029-2033	1,212	141	(92)	49
	3,651	1,306	(857)	449
Less: Current portion	(229)			
Long-term portion as of June 30, 2018	$ 3,422			

* The SFPUC received IRS notice dated June 21, 2018 that the federal interest subsidy is reduced by 6.2% or a total reduction of $57 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(e) *Power Revenue Bonds 2015 Series A (Green) and Series B*

In May 2015, Hetchy Power issued tax-exempt revenue bonds, 2015 Series A (Green) in the amount of $32,025 with interest rates ranging from 4.0% to 5.0% and 2015 Series B in the amount of $7,530 with interest rates ranging from 3.0% to 4.0%. Proceeds from the bonds were used to finance reconstruction or replacement of existing facilities of the SFPUC's Hetch Hetchy project, to fund capitalized interest on the 2015 Series AB Bonds, to fund a debt service reserve account for the 2015 Series AB Bonds, and to pay costs of issuance of the 2015 Series AB bonds. The bonds were rated "A+" and "AA-" by S&P and Fitch, respectively. Final maturity for 2015 Series AB are November 1, 2045 and November 1, 2026, respectively. The true interest cost is 3.95%. As of June 30, 2018, the outstanding principal amount was $38,845.

The future annual debt service relating to the 2015 Series AB Bonds outstanding as of June 30, 2018 are as follows:

Hetchy Power - Power Revenue Bonds 2015 Series A (Green)

Fiscal years ending June 30:	Principal	Interest	Total
2019	$ —	1,593	1,593
2020	—	1,593	1,593
2021	—	1,593	1,593
2022	—	1,593	1,593
2023	—	1,593	1,593
2024-2028	1,850	7,889	9,739
2029-2033	5,930	6,831	12,761
2034-2038	7,565	5,153	12,718
2039-2043	9,650	3,011	12,661
2044-2046	7,030	539	7,569
	32,025	31,388	63,413
Add: Unamortized bond premium	3,695		
Long-term portion as of June 30, 2018	$ 35,720		

Hetchy Power - Power Revenue Bonds 2015 Series B

Fiscal years ending June 30:	Principal	Interest	Total
2019	$ 730	246	976
2020	755	220	975
2021	785	189	974
2022	815	157	972
2023	850	124	974
2024-2027	2,885	183	3,068
	6,820	1,119	7,939
Less: Current portion	(730)		
Add: Unamortized bond premium	426		
Long-term portion as of June 30, 2018	$ 6,516		

(f) *Certificates of Participation Issued for the 525 Golden Gate Headquarters Building*

In October 2009, the City issued $167,670 in certificates of participation to fund construction of the headquarters of the SFPUC at 525 Golden Gate Avenue. The 2009 Series C certificates were issued for $38,120 and 2009 Series D for $129,550 as "Build America Bonds" (BABs) on a taxable basis under the 2009 American Recovery and Reinvestment Act. The 2009 Series C certificates carry interest rates ranging from 2.0% to 5.0% and mature on November 1, 2022. The 2009 Series D certificates carry interest rates ranging from 6.4% to 6.5% and mature on November 1, 2041. After adjusting Series D for the federal interest subsidy, the true interest cost averages 3.4% and 4.3% for Series C and Series D certificates, respectively.

Under the terms of a Memorandum of Understanding between the City and the SFPUC dated October 1, 2009, the City conveyed the real property to the Trustee, the Bank of New York Mellon Trust Company, N.A., which was replaced by U.S. Bank in March 2014 under a property lease in exchange for the proceeds of the sale of the certificates. The Trustee has leased the property back to the City for the City's use under a project lease. The City is obligated under the project lease to pay base rental payments and other payments to the Trustee each year during the 32-year term of the project lease. The Commission makes annual base rental payments to the City for the building equal to annual debt service on the certificates. It is anticipated these lease costs will be offset with reductions in costs associated with current office rental expense. Hetchy Power's share is reflected on the Hetchy Power fund statements.

The Power, Water, and Wastewater Enterprises have ownership interest in the building equal to their projected usage of space as follows: Water (73%), Wastewater (15%), and Power (12%). Similarly, each Enterprise is responsible for a portion of the annual base rental payment based on their ownership percentages less contributed equity. The percentage share of base rental payments for the Enterprises is as follows: Water (71.4%), Wastewater (18.9%), and Power (9.7%).

The future annual debt service relating to the certificates of participation 2009 Series C outstanding as of June 30, 2018 is as follow:

Fiscal years ending June 30:	Principal	Interest	Total
2019	$ 348	88	436
2020	366	70	436
2021	384	51	435
2022	405	31	436
2023	425	10	435
	1,928	250	2,178
Less: Current portion	(348)		
Add: Unamortized bond premium	60		
Long-term portion as of June 30, 2018	$ 1,640		

The following table presents the future annual debt service relating to the certificates of participation 2009 Series D outstanding as of June 30, 2018. The federal interest subsidy represents 35% of the interest, excluding sequestration:

Fiscal years ending June 30:	Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2019	$ —	812	(267)	545
2020	—	812	(267)	545
2021	—	812	(267)	545
2022	—	812	(267)	545
2023	—	812	(267)	545
2024-2028	2,418	3,690	(1,212)	2,478
2029-2033	2,972	2,833	(930)	1,903
2034-2038	3,665	1,762	(578)	1,184
2039-2042	3,538	473	(153)	320
Total		12,818	(4,208)	8,610
Long-term portion as of June 30, 2018	$ 12,593			

* The SFPUC received IRS notice dated June 21, 2018 that the federal interest subsidy is reduced by 6.2% or a total reduction of $278 due to sequestration over the remaining life of the bonds assuming the sequestration rate will remain the same.

(8) Revenue Pledge

Hetchy Power has pledged future power revenues to repay the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs. Additionally, Hetchy Power has pledged future power revenues for 2015 Series AB power revenue bonds. Proceeds from the bonds provided financing for various capital construction and facility energy efficiency projects. The Series 2015 AB power revenue bonds are payable through fiscal year 2046 and are solely payable from net revenues of Hetchy Power on a senior lien basis to the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs.

The original amount of bonds issued, total principal and interest remaining, principal and interest paid during fiscal years 2018 and 2017, applicable net revenues, and funds available for debt service are as follows:

Hetchy Power	2018	2017
Bonds issued with revenue pledge	$ 64,871	64,871
Principal and interest remaining due at the end of the year	86,356	91,177
Principal and interest paid during the year*	4,824	2,293
Net revenues for the year ended June 30	30,687	31,229
Funds available for debt service	67,212	63,428

*Per Indenture, debt service for coverage is calculated using the amount of principal and interest paid during the year for the 2015 series AB power revenue bonds, which has a senior lien on power enterprise revenues; principal and interest paid during the year for the 2015 Series AB power revenue bonds was $2,570.

(9) Other Non-Operating Revenues – Trans Bay Cable Construction and Licensing Fees

In 2007, the Board of Supervisors adopted the resolution to enter into two non-exclusive licenses with the Trans Bay Cable LLC (the Licensee) for the Trans Bay Cable Project. The Licensee proposed to install, operate, and maintain approximately 53 miles of high-voltage direct current transmission cable running from the City of Pittsburg to the City. The first license is a Construction License to install a 400 MW high-voltage transmission line, with a four-year term. The Licensee has paid Hetchy Power $3,500 in Renewable Energy, Transmission and Grid Reliability to use the payments for study and development of two City-owned transmission projects, a Newark-San Francisco project, and a Potrero-Embarcadero project. Of the $3,500, only $1,904 has been spent to date. For fiscal years ended June 30, 2018 and 2017, expenses were $2 and $621, respectively.

The second license is an operational license for operation of the transmission line with 25-year term and an option to renew for 10 years. The Licensee agrees to pay Hetchy Power in excess of $20,000 in 10 separate installments of $2,000 annually with adjustments for inflation, as the "San Francisco Electric Reliability Payment" to implement, advance, promote, or enhance policies and projects consistent with City Energy Policies. The project came on line November 29, 2010, and Hetchy Power received the first installment of $2,000. As of June 30, 2018, cumulative revenues to date of $17,612 were recorded, with $2,434 and $2,348 recorded in fiscal years 2018 and 2017, respectively. Per agreement, the SFPUC shall consult with Departments of Environment and Public Health, as well as community members, including the Power Plant Task Force, in developing its proposals to the Board of Supervisors on how to spend the San Francisco Electricity Reliability Payment, and shall consider specifically renewable energy, conservation, and environmental health programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. The San Francisco Electricity Reliability Payment shall also be partly used for green jobs training and placement programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. As of June 30, 2018, cumulative expenses of $5,778 have been incurred, with $648 and $611 in fiscal years 2018 and 2017, respectively.

(10) Employee Benefits

(a) *Pension Plan*

Hetch Hetchy participates in a cost-sharing multiple-employer defined benefit pension plan (the Plan). The Plan is administered by the San Francisco City and County Employees' Retirement System (SFERS). For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of

the SFERS plans, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by Cheiron, the consulting actuary for the Plan. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

San Francisco Employees's Retirement System - Cost Sharing

Fiscal year 2018	
Valuation Date (VD)	June 30, 2016 updated to June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

Fiscal year 2017	
Valuation Date (VD)	June 30, 2015 updated to June 30, 2016
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

The City is an employer of the plan with a proportionate share of 94.07% as of June 30, 2017 (measurement date), and 94.22% as of June 30, 2016 (measurement date). Hetch Hetchy's allocation percentage was determined based on its employer contributions divided by the City's total employer contributions for fiscal years 2017 and 2016. Hetch Hetchy's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense to each department is based on its allocated percentage. Hetchy Water's and Hetchy Power's allocation of the City's proportionate share was 1.19% as of the June 30, 2017 and 1.27% as of June 30, 2016 (measurement date). CleanPowerSF's allocation of the City's proportionate share was 0.02% as of the June 30, 2017 and 0% as of June 30, 2016 (measurement date).

Plan Description – The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The Plan also provides pension continuation benefits to qualified survivors. The City Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

Benefits – The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual COLA after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City.

The four main categories of Plan members are:

a) Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.

b) Sheriff's Department and Miscellaneous Safety members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.
c) Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
d) Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees' Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in Consumer Price Index with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provisions of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding and Contribution Policy – Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2018 varied from 7.5% to 13.0% as a percentage of gross covered salary and from 7.5% to 12.0% as a percentage of gross covered salary for fiscal year 2017. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2016 actuarial valuation report, the required employer contribution rate for fiscal year 2018 was 18.96% to 23.46%. Based on the July 1, 2015 actuarial report, the required employer contribution rate for fiscal year 2017 was 17.90% to 21.40%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the

contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2017 and 2016 (measurement periods) were $519,073 and $496,343, respectively. Hetchy Water's allocation of employer contributions were $2,961 and $2,806 or 45%, and Hetchy Power's allocation of employer contributions were $3,618 and $3,430 or 55%, respectively, for fiscal years 2017 and 2016 (measurement periods). CleanPowerSF had no allocation of employer contribution for fiscal years 2017 and 2016 (measurement periods).

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

Fiscal Year 2018

As of June 30, 2018, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $4,697,129. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017 (measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2017 (reporting year) was $57,122 and $69,412 respectively. Hetchy Water's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2017 (reporting year) was $25,216 and $31,235, respectively or 45% and Hetchy Power's allocation was $30,819 and $38,177, respectively, or 55% of the total. CleanPowerSF's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2017 (reporting year) was $1,087 and $0 respectively. During the measurement year 2017, the actual investment earnings decreased total pension liability. This was partially offset by an increase in service costs and interest costs, resulting in an overall decrease in net pension liability.

For the years ended June 30, 2018, the City's recognized pension expense was $732,895 including amortization of deferred outflow/inflow related pension items. Hetchy Water's and Hetchy Power's allocation of pension expense including amortization of deferred outflow/inflow related pension items were $6,144 for fiscal year 2018. CleanPowerSF's allocation of pension expense including amortization of deferred outflow/inflow related pension items were $978 for fiscal year 2018. Pension expense decreased from the prior year, largely due to the impact of actual investment earnings.

At June 30, 2018, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions were the following:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
Fiscal Year 2018	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Pension contribution subsequent to the measurement date	$ 3,127	3,823	135	7,085	–	–	–	–
Differences between expected and actual experience	234	286	10	530	761	931	33	1,725
Changes in assumptions	4,089	4,997	176	9,262	74	91	3	168
Net difference between projected and actual earnings on pension plan investments	–	–	–	–	942	1,149	41	2,132
Change in employer's proportion	38	46	2	86	41	51	2	94
Total	$ 7,488	9,152	323	16,963	1,818	2,222	79	4,119

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

	Deferred Outflows/(Inflows) of Resources			
Fiscal years	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2019	$ 117	143	5	265
2020	2,120	2,590	91	4,801
2021	1,346	1,645	58	3,049
2022	(1,040)	(1,271)	(45)	(2,356)
	$ 2,543	3,107	109	5,759

Fiscal Year 2017

As of June 30, 2017, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $5,476,653. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016 (measurement date), and the total pension liability for the 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 City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2016 (reporting year) was $69,412 and $26,874 respectively. Hetchy Water's allocation of the City's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2016 (reporting year) was $31,235 and $12,093, respectively or 45% and Hetchy Power's allocation was $38,177 and $14,781, respectively, or 55% of the total. During the measurement year 2016, the increase in service costs, interest costs, change in benefits, change in assumptions, and difference between projected and actual investment earnings increased total pension liability. This was only partially offset by an increase in the discount rate, contributions, investment income, and actuarial experience gains, resulting in an overall increase in net pension liability.

For the years ended June 30, 2017, the City's recognized pension expense was $1,808,992 including amortization of deferred outflow/inflow related pension items. Hetch Hetchy's allocation of pension expense including amortization of deferred outflow/inflow related pension items were $23,605 for fiscal year 2017. Pension expense increased significantly, largely due to the impact of changes in benefits, namely the updated Supplemental COLA assumptions and amortization of deferred inflows/outflows.

At June 30, 2017, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions were the following:

	Schedules of Deferred Outflows and Inflows of Resources					
	Deferred Outflows of Resources			Deferred Inflows of Resources		
Fiscal Year 2017	**Hetchy Water**	**Hetchy Power**	**Total**	**Hetchy Water**	**Hetchy Power**	**Total**
Pension contribution subsequent to the measurement date	$ 2,961	3,618	6,579	–	–	–
Differences between expected and actual experience	–	–	–	1,152	1,406	2,558
Changes in assumptions	5,373	6,568	11,941	157	193	350
Net difference between projected and actual earnings on pension plan investments	4,270	5,220	9,490	–	–	–
Change in employer's proportion	55	67	122	29	36	65
Total	**$ 12,659**	**15,473**	**28,132**	**1,338**	**1,635**	**2,973**

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

	Deferred Outflows/(Inflows) of Resources		
Fiscal years	Hetchy Water	Hetchy Power	Total
2018	$ 1,230	1,505	2,735
2019	1,230	1,505	2,735
2020	3,361	4,108	7,469
2021	2,539	3,102	5,641
	$ 8,360	10,220	18,580

Actuarial Assumptions

Fiscal Year 2018

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2017 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2016 actuarial valuation. Refer to the July 1, 2016 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

Key Actuarial Assumptions

Valuation Date	June 30, 2016 updated to June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.50%
Municipal Bond Yield	2.85% as of June 30, 2016
	3.58% as of June 30, 2017
	Bond Buyer 20-Bond GO Index, June 30, 2016 and June 29, 2017
Inflation	3.25%
Salary Increases	3.75% plus merit component based on employee classification and years of service
Discount Rate	7.50% as of June 30, 2016
	7.50% as of June 30, 2017
Administrative Expenses	0.60% of payroll as of June 30, 2016
	0.60% of payroll as of June 30, 2017

Basic COLA	Old Miscellaneous and All New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
June 30, 2016	2.00%	2.70%	3.30%	4.40%
June 30, 2017	2.00%	2.70%	3.30%	4.40%

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

Fiscal Year 2017

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2016 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2015 actuarial valuation. Refer to the July 1, 2015 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

Key Actuarial Assumptions

Valuation Date	June 30, 2015 updated to June 30, 2016
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.50%
Municipal Bond Yield	3.85% as of June 30, 2015
	2.85% as of June 30, 2016
	Bond Buyer 20-Bond GO Index, July 2, 2015 and June 30, 2016
Inflation	3.25%
Salary Increase	3.75% plus merit component based on employee classification and years of service
Discount Rate	7.46% as of June 30, 2015
	7.50% as of June 30, 2016
Administrative Expenses	0.45% of payroll as of June 30, 2015
	0.60% of payroll as of June 30, 2016

Basic COLA	Old Miscellaneous and all New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
June 30, 2015	2.00%	3.00%	4.00%	5.00%
June 30, 2016	2.00%	2.70%	3.30%	4.40%

(Continued)

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

Discount Rate

Fiscal Year 2018

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.50% as of June 30, 2017 (measurement date) and June 30, 2016 (measurement date), respectively.

The discount rate used to measure the Total Pension Liability as of the June 30, 2017 measurement date was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2016 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining Unfunded Actuarial Liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. For the July 1, 2016 valuation, the increase in the Unfunded Actuarial Liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll, so payments increase 3.75% each year. The Unfunded Actuarial Liability is based on an Actuarial Value of Assets that smooths investment gains and losses over five years and a measurement of the Actuarial Liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of Actuarial Liability in the valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996 and before Proposition C passed, the Market Value of Assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, Cheiron developed an assumption as of the June 30, 2017 measurement date for the probability and amount of Supplemental COLA for each future year.

The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal years	96 - Prop C	Before 11/6/96 or After Prop C
2018	0.750 %	0.000 %
2023	0.750	0.290
2028	0.750	0.350
2033	0.750	0.380
2038+	0.750	0.380

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2096 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.58% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2017 is 7.50%.

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table:

Long- Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0 %	5.3 %
Fixed Income	20.0	1.6
Private Equity	18.0	6.5
Real Assets	17.0	4.6
Hedge Funds/Absolute Returns	5.0	3.6
Total	100.0	

Fiscal Year 2017

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.50% as of June 30, 2016 (measurement date) and 7.46% as of June 30, 2015 (measurement date).

The discount rate used to measure the Total Pension Liability as of the June 30, 2016 measurement date was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2015 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining Unfunded Actuarial Liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. For the July 1, 2016 valuation, the increase in the Unfunded Actuarial Liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll, so payments increase 3.75% each year. The Unfunded Actuarial Liability is based on an Actuarial Value of Assets that smooths investment gains and losses over five years and a measurement of the Actuarial Liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of Actuarial Liability in the valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996 and before Proposition C passed, the Market Value of Assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, Cheiron developed an assumption as of the June 30, 2016 measurement date for the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal years	96 - Prop C	Before 11/6/96 or After Prop C
2018	0.750 %	0.000 %
2023	0.750	0.220
2028	0.750	0.322
2033	0.750	0.370
2038+	0.750	0.375

(Continued)

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2093 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.85% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2016 is 7.50%.

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table:

Long- Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0 %	5.1 %
Fixed Income	20.0	1.1
Private Equity	18.0	6.3
Real Assets	17.0	4.3
Hedge Funds/Absolute Returns	5.0	3.3
Total	100.0	

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Hetch Hetchy's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what Hetch Hetchy's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

Fiscal Year 2018	Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease Share of NPL @ 6.50% $	43,199	52,798	1,862	97,859
Share of NPL @ 7.50%	25,216	30,819	1,087	57,122
1% Increase Share of NPL @ 8.50%	10,336	12,633	445	23,414

Fiscal Year 2017	Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease Share of NPL @ 6.50% $	49,499	60,498	–	109,997
Share of NPL @ 7.50%	31,235	38,177	–	69,412
1% Increase Share of NPL @ 8.50%	16,130	19,714	–	35,844

(Continued)

(b) *Other Post-employment Benefits*

Hetch Hetchy participates in the City's agent multiple employer defined benefit plan, which operates as a cost-sharing multiple employer defined benefit plan (the Plan). The Plan is maintained by the City and is administered through the City's Health Service System and provides post-employment medical, dental and vision insurance benefits to eligible employees, retired employees, and surviving spouses. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other post-employment benefit plan.

GASB Statement No. 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

San Francisco Health Service System Retiree Plan	
Valuation Date (VD)	June 30, 2016 updated to June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

Hetch Hetchy's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the year ended June 30, 2017. Hetch Hetchy's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on its allocated percentage. Hetchy Water's and Hetchy Power's proportionate share of the City's OPEB elements was 0.95% as of June 30, 2017 (measurement date). CleanPowerSF's proportionate share of the City's OPEB elements was 0.02% as of June 30, 2017 (measurement date).

Benefits

Permanent full-time and elected employees are eligible to retire and receive postretirement health insurance benefits when they are eligible for retirement benefits from the City and County of San Francisco's Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service[1] Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service
Disabled Retirement[2]		Any age with 10 years of credited service
Terminated Vested[3]		Age 50 with 5 years of credited service at separation
Active Death[2]		Any age with 10 years of credited service

[1] Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 60 for Miscellaneous members hired on or after January 7, 2012.
[2] No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses/domestic partners of those killed in the line of duty.
[3] Effective with Proposition B, passed June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical:	PPO – City Health Plan (self-insured) HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental and DeltaCare USA
Vision:	Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

Projections of the sharing of benefit related costs are based on an established pattern of practice.

Contributions

Benefits provided under the Plan are currently paid through "pay-as-you-go" funding. Additionally, under the City Charter, active officers and employees of the City who commenced employment on or after January 10, 2009, shall contribute to the Retiree Health Care Trust Fund (Trust Fund) a percentage of compensation not to exceed 2% of pre-tax compensation. The City shall contribute 1% of compensation for officers and employees who commenced employment on or after January 10, 2009 until the City's GASB Actuary has determined that the City's portion of the Trust Fund is fully funded. At that time, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 2% of pre-tax compensation.

Starting July 1, 2016, active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute 0.25% of pre-tax compensation into the Trust Fund. Beginning on July 1st of each subsequent year, the active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute an additional 0.25% of pre-tax compensation up to a maximum of 1%. Starting July 1, 2016, the City shall contribute 0.25% of compensation into the Trust Fund for each officer and employee who commenced employment on or before January 9, 2009. Beginning on July 1st of each subsequent year, the City shall contribute an additional 0.25% of compensation, up to a maximum of 1% for each officer and employee who commenced employment on or before January 9, 2009. When the City's GASB Actuary has determined that the City's portion of the Trust Fund is fully funded, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 1% of pre-tax compensation.

Additional or existing contribution requirements may be established or modified by amendment to the City's Charter.

For the fiscal year ended June 30, 2018, the City's funding was based on "pay-as-you-go" plus a contribution of $25,839 to the Retiree Healthcare Trust Fund. The "pay-as-you-go" portion paid by the City was $178,019 for a total contribution of $203,858 for the fiscal year ended June 30, 2018. Hetch Hetchy's proportionate share of the City's contributions for fiscal year 2018 were $1,974: $870 for Hetchy Water, $1,064 for Hetchy Power, and $40 for CleanPowerSF.

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

As of June 30, 2018, the City reported net OPEB liabilities related to the Plan of $3,717,207. Hetch Hetchy's proportionate share of the City net OPEB liability as of June 30, 2018 was $36,000: $15,872 for Hetchy Water, $19,400 for Hetchy Power, and $728 for CleanPowerSF.

For the year ended June 30, 2018, the City's recognized OPEB expense was $355,186. Amortization of the City's deferred inflow is included as a component of pension expense. Hetch Hetchy's proportionate share of the City's OPEB expense was $3,439: $1,516 for Hetchy Water, $1,854 for Hetchy Power, and $69 for CleanPowerSF.

As of June 30, 2018, Hetch Hetchy's reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources:

	Schedules of Deferred Outflows and Inflows of Resources							
	Deferred Outflows of Resources				Deferred Inflows of Resources			
Fiscal Year 2018	Hetchy Water	Hetchy Power	CleanPowerSF	Total	Hetchy Water	Hetchy Power	CleanPowerSF	Total
Contributions subsequent to measurement date	$ 870	1,064	40	1,974	–	–	–	–
Net difference between projected and actual					–	–		
earnings on pension plan investments	–	–	–	–	26	31	1	58
Total	$ 870	1,064	40	1,974	26	31	1	58

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows:

	Deferred Outflows/(Inflows) of Resources			
Fiscal years	Hetchy Water	Hetchy Power	CleanPowerSF	Total
2019	$ (6)	(8)	(1)	(15)
2020	(6)	(8)	–	(14)
2021	(6)	(8)	–	(14)
2022	(8)	(7)	–	(15)
2023	–	–	–	–
Thereafter	–	–	–	–

(Continued)

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2017 (measurement year) is provided below:

Key Actuarial Assumptions	
Valuation Date	June 30, 2016 updated to June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 7.25% and trends down to ultimate rate of 4.5% Medicare trend starts at 7.0% and trends down to ultimate rate of 4.5% 10-County average trend starts at 6.0% and trends down to ultimate rate of 4.5%
Expected Rate of Return on Plan Assets	7.50%
Discount Rate	7.50%
Salary Increase Rate	Wage Inflation Component: 3.50% Additional Merit Component (dependent on years of service): Police: 0.00% - 8.00% Fire: 0.00% - 15.00% Muni Drivers: 0.00% - 15.00% Craft: 0.00% - 3.50% Misc: 0.00% - 5.25%
Inflation Rate	Wage Inflation: 3.50% compounded annually Consumer Price Inflation: 3.00% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2014.

Non-Annuitant - CalPERS employee mortality tables without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants - CalPERS healthy annuitant mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disable Annuitants - RP-2014 Disabled Retiree Tables without MP-2014 projection

Gender	Adjustment Factor	Base Year
Female	1.066	2006
Male	0.942	2006

Safety Disables Annuitants - CalPERS industrial disability mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.983	2009
Male	0.909	2009

Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what its allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate:

Fiscal Year 2018	Hetchy Water	Hetchy Power	CleanPowerSF	Total
-1.00%	$ 13,852	16,930	635	31,417
Baseline	15,872	19,400	727	35,999
1.00%	18,370	22,453	842	41,665

(Continued)

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 was 7.50%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.50% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation. Target allocation for each major asset class are summarized in the following table:

Asset Class	Target Allocation	20-year Expected Return
U.S. Equities	41.0 %	7.3 %
Developed Market Equity (non-U.S.)	20.0	7.1
Emerging Market Equity	16.0	9.4
High Yield Bonds	3.0	5.4
Bank Loans	3.0	5.0
Emerging Market Bonds	3.0	5.4
Treasury Inflation Protected Securities	5.0	3.3
Investment Grade Bonds	9.0	3.6
	100.0	

The asset allocation targets summarized above have a 20-year return estimate of 7.75%, which was weighted against a 10-year model estimating a 6.59% return, resulting in the ultimate long-term expected rate of return of 7.50%.

The following presents Hetch Hetchy's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what Hetch Hetchy's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

Fiscal Year 2018	Hetchy Water	Hetchy Power	CleanPowerSF	Total
1% Decrease Share of NOL @ 6.50%	$ 18,183	22,224	833	41,240
Share of NOL @ 7.50%	15,872	19,400	728	36,000
1% Increase Share of NOL @ 8.50%	13,978	17,084	640	31,702

(11) Related Parties

(a) *Hetch Hetchy Water and Power*

Various common costs incurred by the SFPUC are allocated among Hetch Hetchy, Water, and the Wastewater Enterprises. The allocations are based on the SFPUC management's best estimate and may change from year to year depending on the activities incurred by each Enterprise and the information available. For the years ended June 30, 2018 and 2017, the SFPUC allocated $14,809, or 17.7%, and $14,361, or 17.4%, respectively, in administrative costs to Hetch Hetchy, which is included in the financial statements under various expense categories. These costs are then allocated to Hetchy Water and Hetchy Power in the Hetch Hetchy financial statements, using the periodically reviewed department overhead allocation model.

The City performs certain administrative services such as maintenance of accounting records and investment of cash for all fund groups within the City. The various funds are charged for these services based on the City's indirect cost allocation plan. The overhead allocation paid to the General Fund of the City by Hetch Hetchy was $119 and $224 for the years ended June 30, 2018 and 2017, respectively, and is included in other operating expenses in the accompanying financial statements. Some City departments provide direct services such as engineering, purchasing, legal, data processing, telecommunication, and human resources to Hetch Hetchy and charge amounts designed to recover those departments' costs. These charges totaling approximately $7,420 and $8,678 for the years ended June 30, 2018 and 2017, respectively, have been included in services provided by other departments in the accompanying financial statements.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Parks Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. Total payment under this agreement is $6,274, which was fully made as of fiscal year 2015. The expenses and prepayments among the three SFPUC Enterprises are based on 525 Golden Gate occupancy. As of June 30, 2018, Hetch Hetchy's allocable shares of expenses and prepayment were $16 and $973, respectively, and as of June 30, 2017 were $17 and $989, respectively.

(b) *Hetchy Water*

The Water Enterprise purchases water from Hetchy Water. Included in the operating revenues are the water assessment fees of $32,600 and $34,600 for the years ended June 30, 2018 and 2017, respectively. The water assessment fees represent a recovery to fund upcountry, water-related costs that are not otherwise funded through Hetchy water-related revenue or Water revenue bonds.

Hetchy Water received $30,000 and $60,000 for the years ended June 30, 2018 and 2017, respectively, from the Water Enterprise to fund upcountry projects.

(c) *Hetchy Power*

As of June 30, 2018, and 2017, operating revenues in sales of power to departments within the City were $90,019 and $87,656, respectively.

The Water Enterprise also purchases electricity and gas from Hetchy Power. This amount totaled $9,047 and $8,480 for the years ended June 30, 2018 and 2017, respectively.

The Wastewater Enterprise purchases electricity and gas from Hetchy Power. This amount totaled $10,195 and $10,738 for the years ended June 30, 2018 and 2017, respectively.

Hetchy Power facilitates all electric and gas service connections between PG&E and City departments. In this capacity, Hetchy Power facilitates and coordinates the terms and payment for the service connections that are performed by PG&E. As of June 30, 2018, and 2017, there was no outstanding amount due from City departments related to this work. In the event Hetchy Power received money from PG&E after project completion, monies are to be refunded to the City departments for their respective credits.

Due from other City departments was $10,732 and $11,196 with elimination of a $5,601 working capital loan to CleanPowerSF for the years ended June 30, 2018 and 2017, respectively. Hetchy Power serves as the City's department for energy efficiency projects and maintains the

Sustainable Energy Account (SEA) (formerly known as the Mayor's Energy Conservation Account) fund to sponsor and financially support such projects at various City departments. In this role, Hetchy Power may secure low-interest financing to supplement funds available in the SEA fund. At June 30, 2018 and 2017, projects completed or under way throughout the City amounted to $6,254 and $6,931, respectively, and are recorded as due from other government agencies.

Besides funding the SEA projects, in fiscal year 2010, Hetch Hetchy funded a project for the Treasure Island Development Authority and recorded $2,599 as due from other government agencies. Hetchy Power and the Moscone Center have renegotiated the memoranda of understanding to extend the payment terms of the receivables to match the useful life of underlying assets.

As of June 30, 2018, and 2017, Hetchy Power recorded receivables of $1,061 and $1,166, respectively, due from the Wastewater Enterprise for its share of costs relating to SFPUC Headquarters Living Machine System. Details of due from other City departments are as follows:

	2018	2017
Moscone Center	$ 6,075	6,581
San Francisco General Hospital	179	350
Total SEA-related projects	6,254	6,931
Treasure Island Development Authority	2,599	2,599
Wastewater - 525 Golden Gate Headquarters Project	1,061	1,166
San Francisco Recreation and Park	734	—
Department of Public Works	84	37
CleanPowerSF - Electricity Purchases	—	387
Office of Community Investment and Infrastructure	—	76
Total due from other City departments	10,732	11,196
Less: current portion	(980)	(1,282)
Long-term portion as of June 30, net	$ 9,752	9,914

(d) *CleanPowerSF*

As of June 30, 2018, and 2017, operating revenues in sales of power to Hetchy Power were $0 and $12, respectively. Operating expenses in purchase of power from Hetchy Power were $3,501 and $1,893, respectively. Wholesale sales of energy, capacity and/or other electric power related products may be made between the CleanPowerSF and Hetchy Power, when available. CleanPowerSF and Hetchy Power transact for such products at prevailing market prices.

CleanPowerSF received program support services from Hetchy Power. This amount totaled $207 and $181 for the years ended June 30, 2018 and 2017, respectively.

(12) Risk Management

The Enterprise's Risk Management program includes both self-insured (i.e., self-retention) and insured exposures at risk. Risk assessments and purchasing of insurance coverage are collaboratively coordinated by SFPUC Enterprise Risk Management and the City's Office of Risk Management. With certain exceptions, the City and the Enterprise's general approach is to first evaluate the exposure at risk for self-insurance. Based on this analysis, internal mitigation strategies and financing through a self-retention mechanism are generally more economical as the SFPUC in coordination with the City Attorney's Office administers, adjusts, settles, defends, and pays claims from budgeted resources (i.e., pay-as-you-go fund). When economically more viable or when required by debt financing covenants, the

Enterprise obtains commercial insurance. At least annually, the City actuarially determines general liability and workers' compensation risk exposures. The Enterprise does not maintain commercial earthquake coverage, with certain minor exceptions, such as a sub-limit for fire-sprinkler leakage due to earthquake under the SFPUC Property Insurance Program.

Primary Risks	Typical Coverage Approach
General liability	Self-Insured
Property	Purchased Insurance and Self-Insured
Electronic data processing	Purchased Insurance and Self-Insured
Workers' compensation	Self-Insured through Citywide Pool

Other Risks	Typical Coverage Approach
Surety bonds	Purchased and Contractually Transferred
Errors and omissions	Combination of Self-Insured and Contractual Risk Transfer
Professional liability	Combination of Self-Insured and Contractual Risk Transfer
Public officials liability	Purchased Insurance
Employment practices liability	Purchased Insurance
Builders' risk	Contractually Transferred
Crime	Purchased Insurance

(a) *General Liability*

Through coordination with the Controller and the City Attorney's Office, the general liability risk exposure is actuarially determined and is addressed through pay-as-you-go funding as part of the budgetary process. Associated costs and estimates are booked as expenses as required under GAAP for financial statement purposes for both the Enterprise and the City and County of San Francisco's Comprehensive Annual Financial Report. The claim expense allocations are determined based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The changes for the general liability (damage claims) for the years ended June 30, 2018 and 2017 are as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
Hetch Hetchy*				
2018	$ 2,438	2,975	(2,947)	2,466
2017	1,861	3,146	(2,569)	2,438
Hetchy Water				
2018	$ 586	786	(1,139)	233
2017	353	1,082	(849)	586
Hetchy Power				
2018	$ 1,852	2,189	(1,808)	2,233
2017	1,508	2,064	(1,720)	1,852

*CleanPowerSF had no general liability as of June 30, 2018 and 2017.

(Continued)

(b) *Property and Electronic Data Processing*

The Enterprise's property risk management approach varies depending on whether the facility is currently under construction, the property is part of revenue-generating operations, the property is of high value, or is mission-critical in nature. During the course of construction, the Enterprise requires each contractor to provide its own insurance, while ensuring the full scope of work is covered with satisfactory levels to limit the Enterprise's risk exposure. Once construction is complete, the Enterprise performs an assessment to determine whether liability/loss coverage will be obtained through the commercial property policy or self-insurance. The majority of property scheduled in the insurance program is for (1) revenue generating facilities, (2) debt financed facilities, (3) mandated coverage to meet statutory requirements for bonding of various public officials, or (4) high-value, mission-critical property or equipment. The Electronic Data Processing policy protects selected high-value electronic property in case of damage or loss.

(c) *Workers' Compensation*

The City actuarially determines and allocates workers' compensation costs to the Enterprise according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the Enterprise's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. Statewide workers' compensation reforms have resulted in budgetary savings in recent years. The City continues to develop and implement improved programs, such as return-to-work programs, to lower or mitigate the growth of workers' compensation costs. Programs include accident prevention, investigation, and duty modification for injured employees with medical restrictions so return to work can occur as soon as possible.

The changes for the workers' compensation liabilities for the years ended June 30, 2018 and 2017 are as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
Hetch Hetchy*				
2018	$ 2,969	561	(581)	2,949
2017	2,964	861	(856)	2,969
Hetchy Water				
2018	$ 999	207	(217)	989
2017	997	224	(222)	999
Hetchy Power				
2018	$ 1,970	354	(364)	1,960
2017	1,967	637	(634)	1,970

*CleanPowerSF had no workers' compensation liabilities as of June 30, 2018 and 2017.

(d) *Surety Bonds*

Bonds are required in most phases of the public utilities construction contracting process for such phases as bid, performance, and payment or maintenance. Additionally, bonds may be required in other contracts where goods or services are provided to ensure compliance with applicable terms and conditions such as warranty.

(e) *Errors and Omissions, Professional Liability*

Errors and omissions and professional liability are commonly transferred through contract to the contracted professional, or retained through self-insurance on a case-by-case basis depending on the size, complexity, or scope of construction or professional service contracts. Examples of such contracts are inclusive of services provided by engineers, architects, design professionals, and other licensed or certified professional service providers.

(f) *Public Officials Liability, Employment Practices Liability*

All Enterprise public officials with financial oversight responsibilities are provided coverage through a commercial Public Officials Liability Policy. An Employment Practices Liability Policy is retained to protect against employment-related claims and liabilities.

(g) *Builders' Risk*

Builders' Risk policies of insurance are required to be provided by the contractor on all construction projects for the full value of construction.

(h) *Crime*

The Enterprise also retains a Commercial Crime Policy, in lieu of bonding its employees, to provide coverage against liabilities or losses due to third-party crime or employee fraud.

(i) *Energy Risk Management*

Similar to other electric utilities with a heavy reliance on hydroelectric generation, Hetch Hetchy is exposed to risks that could impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity for Hetch Hetchy. For this reason, the Hetch Hetchy revenues can vary with watershed hydrology, unexpected generator outages, and market prices for energy. Given the inherent risk for all hydroelectric generation, several risk management interventions have been developed to mitigate exposure.

(j) *Enterprise Risk Management*

The Power Enterprise adopted the ISO 31000 standard for Hetchy Power and the CleanPowerSF program as the framework for implementing Enterprise Risk Management (ERM). The Enterprise utilizes this framework to systematically and proactively identify and mitigate risks that threatens its business objectives. Since not all risks are insurable or transferable contractually, the ERM program provides an additional method to manage risks and protect the Enterprise's current and expanding business allowing for increased operational resiliency and the ability to capitalize on opportunities.

(13) Commitments and Litigation

(a) *Commitments*

As of June 30, 2018, and 2017, Hetch Hetchy, has outstanding commitments with third parties of $113,361 and $72,736, respectively, for various capital projects and other purchase agreements for materials and services.

Hetchy Water

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the MID and TID in which the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City, which are included in Hetchy Water's operating expenses. The payment amounts were $4,793 and $4,716 for fiscal years 2018 and 2017, respectively. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1,400 is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52%, while the Districts are responsible for 48% of the costs.

Hetchy Power

District Sales

In April 1988, Hetchy Power entered into two separate long-term power sales agreements (the Agreement) with the two irrigation districts, the MID and TID, which expired June 30, 2015. In April 2015, the Commission and the Board of Supervisors approved the extension of both agreements for one year to June 30, 2016. A second extension agreement was subsequently approved to extend both agreements for an additional year to June 30, 2017, with an automatic six month extension through December 31, 2017. Terms and conditions for the MID extension agreement were the same as the original agreement. The second extension agreement for TID removed the District's rights to excess energy from the project and terminated those conditions with the first extension agreement on June 30, 2016. Extended agreements for MID and TID expired on December 31, 2017.

The SFPUC will continue to comply with the Raker Act by making Hetch Hetchy generated hydropower available at cost to MID and TID for their agricultural pumping and municipal loads as energy from the Hetch Hetchy project is available after meeting the SFPUC's municipal load obligations.

For fiscal years 2018 and 2017, energy sales to the Districts totaled 46,651 Megawatt hours (MWh) or $2,636 and 152,321 MWh or $7,808 respectively. The decrease was primarily due to no purchase agreement with MID and TID in fiscal year 2018, beginning January 1, 2018.

1987 Interconnection Agreement and 2015 Replacement Agreements

In 1987, the City entered into an interconnection agreement with PG&E to provide transmission, distribution, and other support services for the City's use of PG&E's transmission and distribution system to deliver the City's Hetchy power and purchases to the City's customers. The renegotiated agreement in 2007 expired on July 1, 2015. In December 2014, PG&E filed several separate replacement service and facilities agreements with the FERC for its approval. By FERC order, the City is currently taking transmission service on PG&E's transmission system using the CAISO Open-Access Transmission Tariff and is taking distribution service under PG&E's Wholesale Distribution Tariff pursuant to PG&E's replacement agreements, but subject to waiver of certain terms and conditions and subject to refund by PG&E, pending the FERC's final decision. During fiscal years 2018 and 2017, Hetchy Power purchased $9,570 and $8,595, respectively, of transmission, distribution services, and other support services from PG&E under the terms of the replacement agreements and the 1987 Interconnection Agreement.

Western System Power Pool and other Market Purchases and Sales

Hetchy Power may purchase or sell energy and other related products (such as ancillary services, spinning reserves, resource adequacy products, and congestion revenue rights) with different market entities through the Western System Power Pool (WSPP) and the CAISO. During fiscal years 2018 and 2017, Hetchy Power purchased $6,656 and $0 of power and other related products, respectively. Sales of excess power, after meeting Hetch Hetchy's obligations, were 15,900 MWh, or $668, for 2018 and 29,050 MWh, or $755, for 2017.

Power Purchase Agreement (PPA)

Hetchy Power (Buyer) purchases energy, capacity, and environmental attributes from a solar photovoltaic project located at Sunset Reservoir (the facility) pursuant to the 2009 25-year PPA with SFCity1, LP, owned by Duke Energy (Seller). In November 2010, the facility commenced commercial operation and began to provide Hetchy Power energy generated by the facility.

The PPA sets the starting purchase price of generated energy at $235/MWh, increasing by 3% each year throughout the term of the agreement, and it is expected that the facility will generate 6,560 MWh per year. In fiscal year 2018, the facility generated 6,887 MWh and rate was at $306/MWh. In the event that the facility generates more energy than expected due to better than normal meteorological conditions, the PPA requires the Buyer to purchase all the excess energy but generation in excess of 120% of expected is purchased at no cost. The PPA also requires the Seller to generate a minimum amount of energy from the facility annually. If energy production falls below 50% of expected, the Seller must provide replacement power, and if energy falls below 90% of expected, the price for energy generated is lowered. In fiscal years 2018 and 2017, purchases of energy under the Agreement were $2,015, or 6,887 MWh, and $1,847, or 6,505 MWh, respectively.

CleanPowerSF

CleanPowerSF began serving customers in May 2016 and entered into contracts with Calpine Energy Services L.P. (Calpine) and Shiloh I Wind Project LLC (Shiloh) to purchase renewable and conventional energy and resource adequacy capacity to meet its retail sales obligations. Both contracts feature 10-year master agreements under which multiple transactions may be executed. CleanPowerSF had executed two multi-year transactions with Calpine (three-year term) and Shiloh (five-year term). The Calpine requires a reserve balance of $3,049 and $2,640 as of June 30, 2018 and 2017, respectively, which is equivalent to two months' worth of estimated payment. As of June 30, 2018, and 2017, total electricity purchased from Calpine and Shiloh were $19,796 and $17,265 respectively.

Since its launch, CleanPowerSF has added multiple short-term and medium-term contracts to purchase renewable, carbon-free and conventional energy and resource adequacy capacity, as well as long-term contracts for renewable energy with sPower and Terra-Gen. These contracts have been entered into to allow CleanPowerSF to both meet its existing retail sales obligations and to support future retail sales from the citywide expansion of the CleanPowerSF program planned to occur by the end of 2019. The total contract cost of long-term renewable energy contracts with sPower (a 22-year contract starting delivery in July 2019) and Terra-Gen (a 15-year contract starting delivery in December 2020) are $219,219 and $102,339, respectively, over each contract's term. Additional short-term and medium-term contracts (of commitments ranging from less than 1 year to 5 years) for renewable, carbon-free and conventional energy to be delivered during 2019 to 2023 totaled to be $353,216 over their terms.

Customer and Administrative Services

CleanPowerSF entered into a contract with Noble Americas Energy Solutions in November 2015 for a three-year term, not to exceed $5,600 to provide data management, billing administration and customer care services. On December 1, 2016, Noble Americas Energy Solutions was acquired by Calpine Corporation and was renamed Calpine Energy Solutions. Subsequently, CleanPowerSF's contract was assigned to Calpine Energy Solutions under its new name and ownership. During fiscal year 2018 and 2017, amounts paid were $1,526 and $990, respectively.

CleanPowerSF Guarantee

In March 2018, CleanPowerSF entered into a five-year, $75,000 Credit Agreement with J.P. Morgan Chase in order for the program to secure letters of credit to guarantee certain payment obligations of CleanPowerSF and to meet working capital needs of CleanPowerSF, if necessary. The Credit Agreement is secured by CleanPowerSF net revenues; there is no pledge of or Lien on CleanPowerSF net revenues that ranks senior to the obligations of the Credit Agreement. The letters of credit, issued by J.P. Morgan Chase, were in the amount of $18,091 and $13,939 as of June 30, 2018 and 2017, respectively. There was no draw against the Credit Agreement during fiscal years 2018 and 2017.

(b) *Litigation*

Hetch Hetchy is a defendant in various legal actions and claims that arise during the normal course of business. The final disposition of these legal actions and claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of Hetch Hetchy.

(c) *Grants*

Grants that the Enterprise received are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(d) *Environmental Issue*

As of June 30, 2018, and 2017, there was no pollution remediation liability recorded.

(14) Subsequent Event

Power Revenue Bonds Rating Change – Hetchy Power

On November 2, 2018, S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), raised its long-term rating on the Power Enterprise Revenue Bonds to "AA" from "A+" and affirmed Hetchy Power's "stable" outlook.

Power Commercial Paper Program – Hetchy Power

On November 13, 2018, the Commission approved Resolution No. 18-0188 which authorized an increase in the authorization of the Power Enterprise Commercial Paper Program from not-to-exceed $90,000 to not-to-exceed $250,000 of aggregate principal amount. In support of the expanded Program, Resolution No. 18-0188 also authorized the SFPUC to enter into bank credit facilities with Bank of America, N.A. and Sumitomo Mitsui Bank, each in the principal amount of $125,000 and for

terms of three years and four years, respectively; and it also authorized extending the dealer agreements with RBC Capital Markets, Barclays and Goldman Sachs for four years each.

Calpine Energy Solutions Contract Extension - CleanPowerSF

In November 2018, upon expiration of the first contract term, CleanowerSF extended its contract with Calpine Energy Solutions for an additional three-year term and increased the contract's total not-to-exceed value to $18,769.

PG&E Intension to File Bankruptcy – Hetchy Power and CleanPowerSF

On January 13, 2019, Pacific Gas and Electric (PG&E) filed Form 8-K with the Securities and Exchange Commission, which is the 15-day advance notice required by recently enacted California law that it and its wholly owned subsidiary Pacific Gas and Electric Company (the "Utility") currently intend to file petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code on or about January 29, 2019. The Enterprise has a number of business relationships involving PG&E in the provision of electric services to customers, including electric transmission, distribution and customer billing services. As of January 25, 2019, the Enterprise has not yet determined the impact of PG&E's intended filing to reorganize under Chapter 11 of the U.S. Bankruptcy Code, to Hetchy Power and CleanPowerSF program operations.

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Independent Auditors' 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*

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of Hetch Hetchy Water and Power and CleanPowerSF (Hetch Hetchy), an enterprise fund of the City and County of San Francisco, California (the City), which comprise the statement of financial position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2019. Our report also includes an emphasis of matter paragraph related to the Hetch Hetchy's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*. The July 1, 2017 beginning net position was restated for the retrospective application of this new accounting guidance.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hetch Hetchy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing opinions on the effectiveness of Hetch Hetchy's internal control. Accordingly, we do not express opinions on the effectiveness of Hetch Hetchy'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 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 Hetch Hetchy'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 opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. 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 opinions on the effectiveness of the Hetch Hetchy'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 Hetch Hetchy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
January 25, 2019

San Francisco Public Utilities Commission
A Department of the City and County of
San Francisco, California

Photos by Robin Scheswohl

如果您需要中文翻譯, 請致電: (415) 554-3289.

Si necesita una t aducción o asistencia en español llame al (415) 554 3289

Communications Division
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Our Mission

To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.