

SOUTH FEATHER WATER AND POWER AGENCY

AUDITED FINANCIAL STATEMENTS

December 31, 2016 and 2015

SOUTH FEATHER WATER AND POWER AGENCY

AUDITED FINANCIAL STATEMENTS

December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South Feather Water and Power Agency
Oroville, California

Report on the Financial Statements

We have audited the accompanying financial statements of South Feather Water and Power Agency (the Agency), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors
South Feather Water and Power Agency

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2016 and 2015 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Report on Required Supplementary Information

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

Report on Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2017, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control

To the Board of Directors
South Feather Water and Power Agency

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 Agency's internal control over financial reporting and compliance.

Richardson & Company, LLP

June 13, 2017

**SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

This discussion and analysis is part of the overall financial report. The basic financial statements that follow make up the other part of the report.

The South Feather Water and Power Agency, formerly Oroville-Wyandotte Irrigation District (OWID), was formed in 1919 as an irrigation district under the Irrigation District Law, Division 11 of the Water Code (§ 20500 et seq.) of the State of California, for purposes of supplying water for irrigation. The Agency presently includes approximately 54,000 acres in south eastern Butte County and encompasses the unincorporated areas adjacent to the City of Oroville, as well as the unincorporated communities of Kelly Ridge, Bangor, and Palermo. The Agency area has a population of approximately 17,500, and currently provides water services to approximately 6,700 residential customers (domestic water) and 500 irrigation customers (raw water).

The Agency has water rights from the south fork of the Feather River and certain tributaries for hydroelectric generation purposes, which water may also be diverted by the Agency each year for consumptive uses. The Agency owns certain hydroelectric facilities, the power from which is presently sold to Pacific Gas and Electric Company (PG&E).

FINANCIAL HIGHLIGHTS

- The South Feather Water & Power Agency December 31, 2016 net position of \$90,494,534 is an increase of \$4,857,621 (5.67%) when compared with the December 31, 2015 net position of \$85,636,913.
- The Agency's operating revenues decreased by \$2,388,432 or 10.61% from the prior year. Income from the sale of electricity increased \$4,712,100 in 2016 while a water transfer sale of \$7,400,000 was recognized in 2015 resulting in the net decrease in 2016 operating revenues. The Agency's 2016 operating expenses increased by \$243,909 or 1.51% from 2015.
- The Agency's capital contributions decreased by \$4,839,389 to the 2016 amount of \$762,432 due to substantially less work completed on the Lost Creek Dam Crest Modification project when compared to the previous year.
- Construction-in-Progress increased by \$8,560,364 from last year to \$28,489,513. The Lost Creek Dam Crest Modification project, improvement of the Miners Ranch Treatment Plant and refurbishment of the Kelly Ridge Powerhouse components comprise the current Construction-in-Progress balance.
- Relicensing costs accumulated through 2012 in the amount of \$5,716,306 will be amortized over the life of the license beginning when the FERC license is issued. Costs incurred subsequent to 2012 have been expensed.
- The total of the Agency's long-term liabilities increased by \$19,504,329 with the issuance of Certificates of Participation to fund the Miners Ranch Treatment Plant Improvement Project. The long-term liabilities also recognize pension liabilities, other post-employment benefits in accordance with current accounting standards and account for a loan payable to PG&E for the Agency's share of the Lost Creek Dam Crest Modification project.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. They are comprised of two components: 1) fund financial statements and, 2) notes to the financial statements.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency presents one major proprietary fund on the Statement of Net Position.

**SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Proprietary funds provide the same type of information as the government-wide financial statements. As such, the Agency has chosen to present only fund financial statements.

The 2016 proprietary fund financial statements may be found on pages 13 - 17 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 - 40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Year-over-year changes in net position may serve over time as a useful indicator of a government's financial position. In the case of South Feather Water & Power Agency, assets plus deferred outflows of resources exceeded liabilities and deferred inflows by \$90,494,534 as of December 31, 2016.

The largest portion of the Agency's net position (76.6%) are invested in capital assets (e.g. land and water rights, source of supply, hydroelectric facilities, pumping plant, water treatment facilities, transmission and distribution facilities, buildings and equipment, construction-in-progress and relicensing-in-progress), less any related debt used to acquire those assets that is still outstanding, excluding unspent debt proceeds. The Agency uses these capital assets to provide services to the community; consequently these assets are not available for future spending. Although the Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities.

The following table summarizes the Agency's assets, liabilities and net position as of December 31, 2016, December 31, 2015 and December 31, 2014.

SOUTH FEATHER WATER & POWER AGENCY'S NET POSITION

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|----------------------------------|----------------------|----------------------|----------------------|
| Current and other assets | \$ 32,361,410 | \$ 35,220,784 | \$ 26,454,997 |
| Restricted assets | 20,014,266 | 549,475 | - |
| Net capital assets | <u>77,865,438</u> | <u>70,663,623</u> | <u>57,753,495</u> |
| TOTAL ASSETS | <u>130,241,114</u> | <u>106,433,882</u> | <u>84,208,492</u> |
| Deferred outflows of resources | <u>2,514,429</u> | <u>1,692,734</u> | <u>1,371,739</u> |
| TOTAL DEFERRED OUTFLOWS | <u>2,514,429</u> | <u>1,692,734</u> | <u>1,371,739</u> |
| Current liabilities | 4,585,543 | 4,085,099 | 1,507,022 |
| Long-term liabilities | <u>37,232,083</u> | <u>17,727,754</u> | <u>9,900,427</u> |
| TOTAL LIABILITIES | <u>41,817,626</u> | <u>21,812,853</u> | <u>11,407,449</u> |
| Deferred inflows of resources | 443,383 | 676,850 | 914,228 |
| Net investment in capital assets | 69,324,139 | 60,757,508 | 54,859,233 |
| Restricted | 1,481,315 | 1,400,273 | 1,888,781 |
| Unrestricted | <u>19,689,080</u> | <u>23,479,132</u> | <u>16,510,540</u> |
| TOTAL NET POSITION | <u>\$ 90,494,534</u> | <u>\$ 85,636,913</u> | <u>\$ 73,258,554</u> |

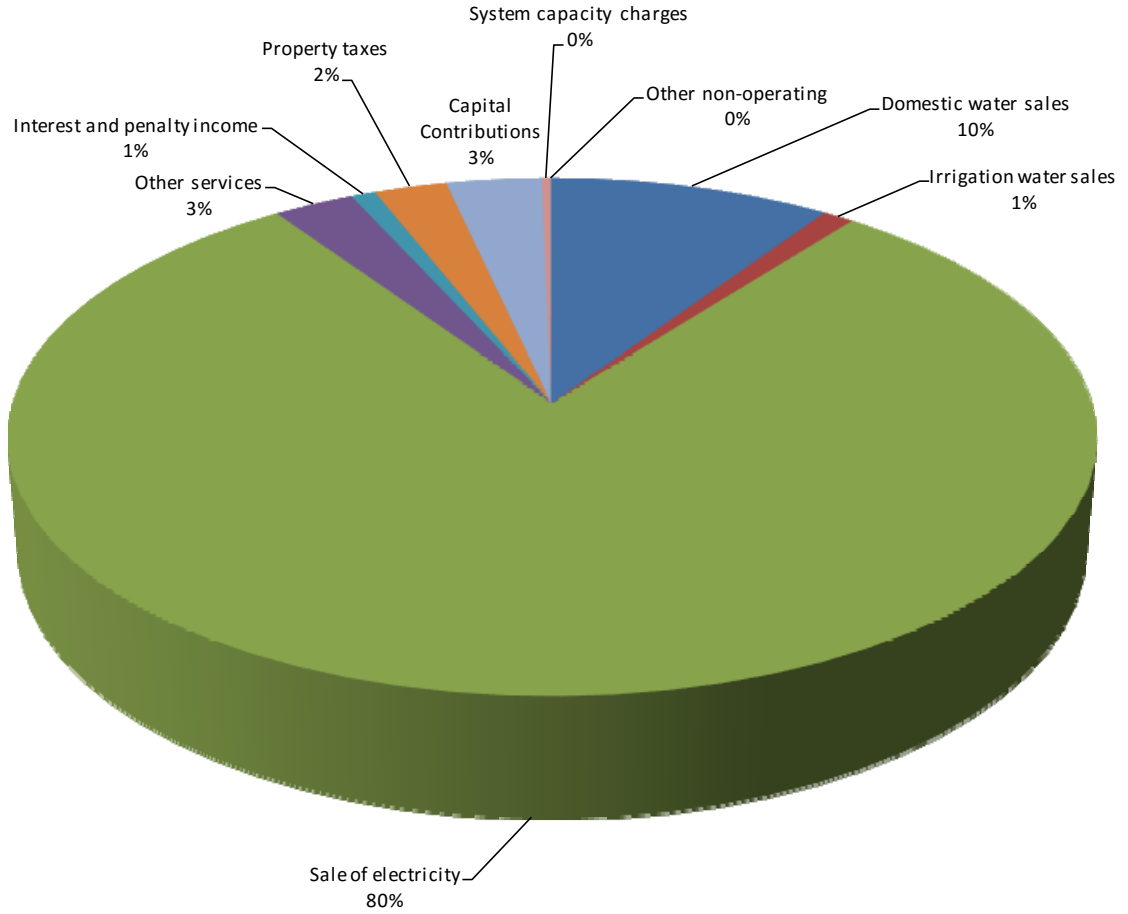
A portion of the Agency's net position, categorized as Restricted Net Position of \$7,435,315 (8.2%) represents resources that are subject to external restriction on how they may be used. The portion of the Agency's Net Position categorized as Unrestricted Net Position \$13,735,080 (15.2%) may be used to meet the Agency's ongoing obligations to the public and its customers. As of December 31, 2016, the Agency reported positive balances in all three categories of net position.

**SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Analysis of the Agency's operations:

The following chart provides a summary of the Agency's Sources of Revenue for the year ended December 31, 2016.

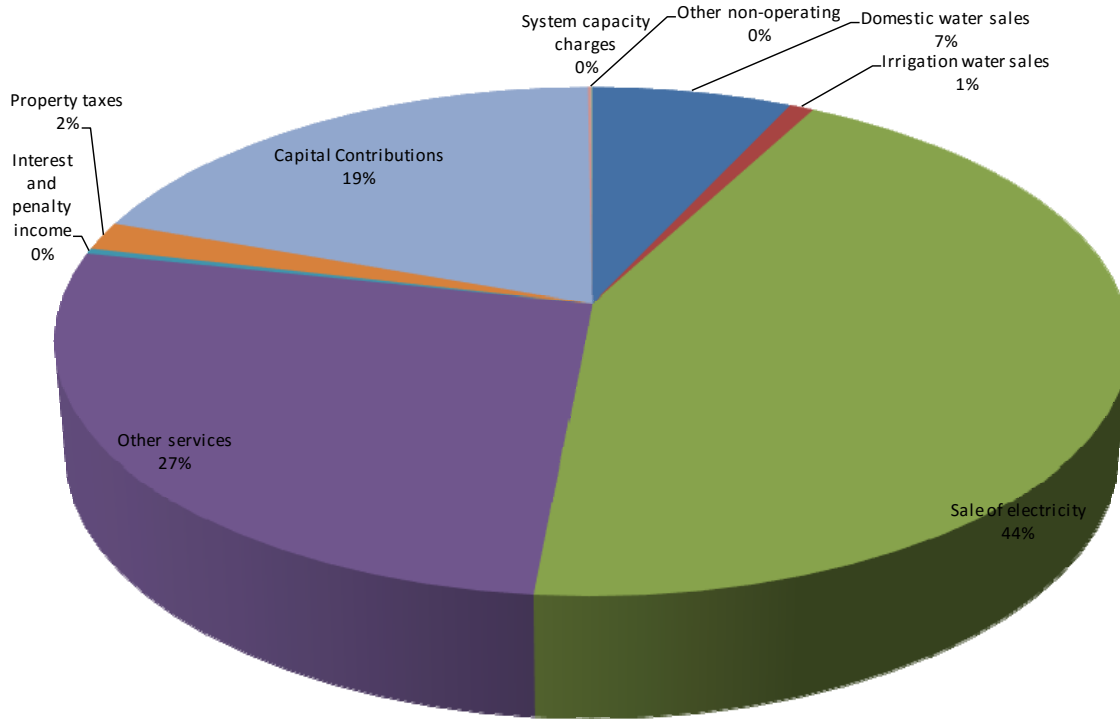
2016 Sources of Revenue



**SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

The following chart provides a summary of the Agency's Sources of Revenue for the year ended December 31, 2015.

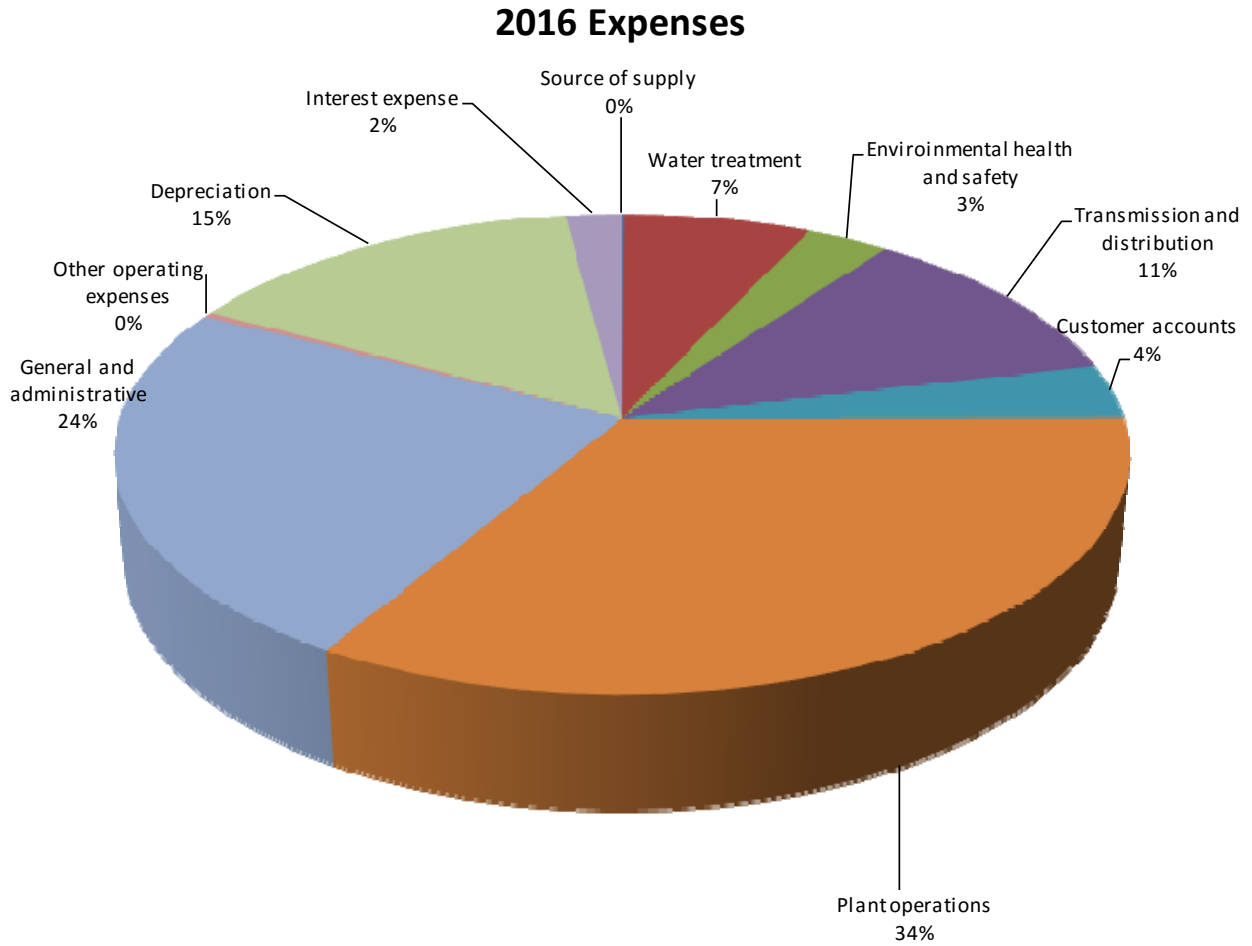
2015 Sources of Revenue



As the Sources of Revenue Chart above shows, \$17,253,321, or 80% of the Agency's 2016 revenue came from the generation of hydroelectric power. An additional \$2,279,064 or 11% came from Domestic and Irrigation Water Sales. The remaining \$2,069,535 or 9% came from a variety of sources as shown above.

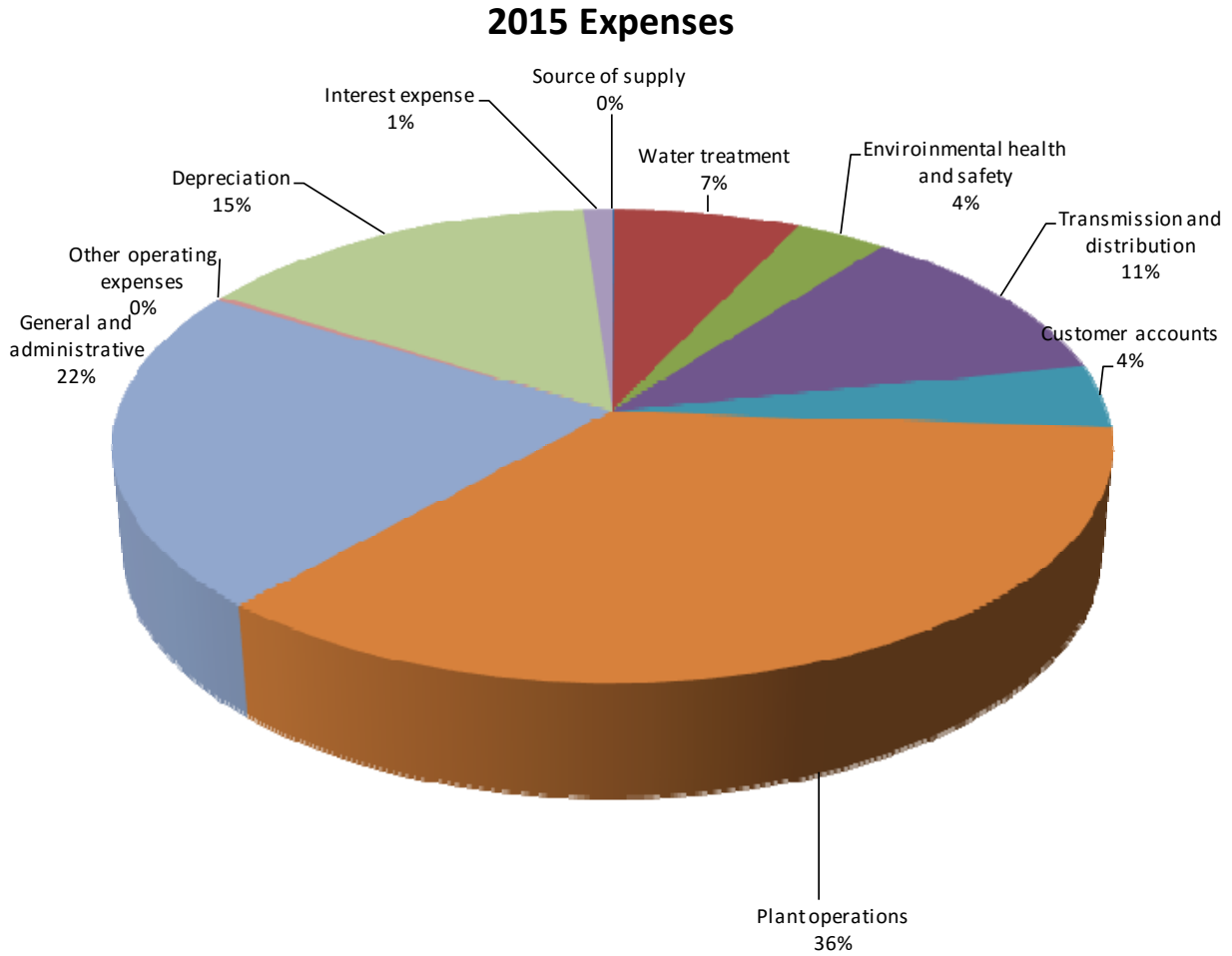
**SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

The following chart provides a summary of the Agency's Expenses for the year ended December 31, 2016.



**SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

The following chart provides a summary of the Agency's Expenses for the year ended December 31, 2015.



The Expenses Chart above shows 2016 expenses for plant operations of \$5,628,388 or 34%. 2016 depreciation and amortization expense was \$2,507,988, or 15%. General and administrative expenses accounted for \$4,028,823, or 24% of the total; transmission and distribution accounted for \$1,891,722 or 11% of the total; and the remaining \$2,687,378, or 16%, was made up of various other expenses as shown above.

**SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

The following table provides a summary of the Agency's operations for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

SOUTH FEATHER WATER & POWER AGENCY'S CHANGES IN NET POSITION

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|----------------------|
| REVENUES | | | |
| Operating Revenues | | | |
| Domestic Water Sales | \$ 2,051,320 | \$ 2,009,002 | \$ 2,115,927 |
| Irrigation water sales | 227,744 | 242,306 | 233,369 |
| Sales of electricity | 17,253,321 | 12,541,221 | 13,251,141 |
| Other services | 593,496 | 7,721,784 | 573,361 |
| Total operating revenue | <u>20,125,881</u> | <u>22,514,313</u> | <u>16,173,798</u> |
| Non-operating revenues: | | | |
| Property taxes | 531,696 | 517,354 | 510,239 |
| Insurance refund | 2,004 | 10,858 | 6,715 |
| Gain or loss on sale of fixed assets | - | (40,361) | |
| Investment earnings | 179,907 | 100,163 | 85,861 |
| Miscellaneous non-operating revenue | | - | 2,323 |
| Total non-operating revenue | <u>713,607</u> | <u>588,014</u> | <u>605,138</u> |
| Capital contributions | <u>762,432</u> | <u>5,601,821</u> | <u>338,508</u> |
| TOTAL REVENUES | <u>21,601,920</u> | <u>28,704,148</u> | <u>17,117,444</u> |
| EXPENSES | | | |
| Operating | 16,398,829 | 16,154,920 | 17,347,760 |
| Non-operating | 345,470 | 170,869 | 114,668 |
| TOTAL EXPENSES | <u>16,744,299</u> | <u>16,325,789</u> | <u>17,462,428</u> |
| CHANGE IN NET POSITION | <u>4,857,621</u> | <u>12,378,359</u> | <u>(344,984)</u> |
| NET POSITION AT BEGINNING OF YEAR | \$ 85,636,913 | 73,258,554 | 76,525,183 |
| Restatement | | | (2,921,645) |
| NET POSITION END OF YEAR | <u>\$ 90,494,534</u> | <u>\$ 85,636,913</u> | <u>\$ 73,258,554</u> |

As the table above shows, the Agency received operating revenues of \$20,125,881 or 93% of the 2016 total revenue, \$22,514,313, or 78% of the 2015 total revenue and \$16,173,798, or 94% of the 2014 total revenue. Operating revenues consist of domestic and irrigation water sales, generation of hydroelectric power, water transfer sales, customer services and installations.

Non-operating revenues account for only \$713,607, or 3%, \$588,014 or 2%, and \$605,138, or 3.5%, of total revenue in 2016, 2015 and 2014 respectively. Non-operating revenues come from property taxes, investment earnings, and any gains or losses on the sale or disposal of an asset.

Total revenue decreased by \$7,102,228, or 25%, between 2016 and 2015. A \$7,400,000 water transfer sale in 2015 caused the decrease in total revenues in 2016 when compared to 2015.

Total expenses increased by \$418,510, or 2.5%, in 2016 compared to 2015.

**SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

CAPITAL ASSETS

The South Feather Water & Power Agency's investment in capital assets (net of accumulated depreciation) amounts to \$77,865,438 as of December 31, 2016. In 2016, the net capital assets made up 60% of the Agency's total assets.

The following table provides a detailed breakdown of net capital assets for 2016, 2015 and 2014.

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|----------------------|
| Land, land rights and water rights | \$ 2,138,103 | \$ 2,138,103 | \$ 2,138,103 |
| Source of supply | 100,200,879 | 99,709,259 | 99,257,883 |
| Pumping plant | 362,297 | 362,297 | 362,297 |
| Miners Ranch Treatment Plant, treatment and transmission and distribution facilities | 32,617,556 | 32,533,163 | 32,206,287 |
| General plant and yard | 11,521,273 | 10,947,847 | 10,810,313 |
| Tailwater Depression System | 124,445 | 124,445 | 124,445 |
| Photovoltaic System - MRTP | 2,142,701 | 2,142,701 | 2,142,701 |
| Recreational facilities | 948,385 | 948,385 | 948,385 |
| Construction in progress | 28,489,513 | 19,929,149 | 5,462,845 |
| FERC relicensing in progress | 5,716,306 | 5,716,306 | 5,716,306 |
| | <u>(106,396,020)</u> | <u>(103,888,032)</u> | <u>(101,416,070)</u> |
| Less: Accumulated Depreciation | | | |
| TOTAL CAPITAL ASSETS | <u>\$ 77,865,438</u> | <u>\$ 70,663,623</u> | <u>\$ 57,753,495</u> |

Major capital asset events during 2016 included refurbishment of the Kelly Ridge Powerhouse, the Miners Ranch Treatment Plant Improvement Project and the Lost Creek Dam Crest Modification project.

Additional information on the Agency's capital assets can be found in note C of this report.

DEBT ADMINISTRATION

As of December 31, 2016, 2015 and 2014, the Agency's debt consisted of the following:

OUTSTANDING FINANCING DEBT

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|-------------------------------|----------------------|---------------------|---------------------|
| Revenue bonds payable | \$ - | \$ 2,369,727 | \$ 2,679,630 |
| Loan payable to PG&E | 112,614 | 7,536,388 | 214,632 |
| Certificates of Participation | 27,010,000 | - | - |
| TOTAL FINANCING DEBT | <u>\$ 27,122,614</u> | <u>\$ 9,906,115</u> | <u>\$ 2,894,262</u> |

In 2016, the Agency issued Certificates of Participation to defease outstanding 2012 Water Revenue Refunding Bonds and provide funds for the construction of the Miners Ranch Treatment Plant Improvement Project. The certificates are rated "AA" by Standard and Poors.

Additional information on the Agency's long-term debt can be found in note D of the financial statements.

**SOUTH FEATHER WATER & POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

ECONOMIC FACTORS & SIGNIFICANT EVENTS

In May of 2005 an agreement was reached with Yuba County Water District, now the North Yuba Water District (NYWD) that defines the settlement of water rights and disposition of net hydroelectric project revenues effective July 1, 2010. SFWP will continue to own, in its own name - not jointly - its historic consumptive water rights on the South Fork of the Feather River. NYWD will be given sole title to the previously jointly held permits – 11516 and 11518. Both districts supported the other's efforts to extend the permits and jointly pursued the environmental documents to receive permit time extensions. The CEQA processing was completed in May of 2006 for the water-right permit time extension application and the petition was filed with the State Resources Control Board in June of 2006.

The FERC License that allows the Agency to operate its hydroelectric project operations expired in March of 2009. In January of 2002, the Agency approved a FERC Relicensing consulting services agreement between SFWPA and Devine Tarbell and Associates (DTA). The draft license application was distributed in July of 2006. The license application was filed with FERC in March of 2007. The Agency and its consultants continue to cooperate in all matters with FERC related to the relicensing process. Until the relicensing process is completed, operations continue under the current FERC license conditions.

In July, 2008, the Agency joined the California Public Employees Retirement System (CalPERS) to serve as the retirement program for Agency employees. In July, 2012, the Agency purchased 25% Prior Service to enhance the Agency's retirement program.

The prior power-purchase agreement with PG&E terminated on June 30, 2010. At its April 28, 2009 Board meeting, the Agency agreed to enter into a ten-year power purchase agreement with PG&E beginning July 1, 2010. Revenue to the Agency from this agreement is based on hydropower generation and a combination of variable, market based payments, and a fixed monthly payment. Operating the facilities continues to be the responsibility of the Agency.

An October, 2015 water transfer sale resulting in significant additional income offset a decline in revenues from power generation and conservation efforts by customers in response to the drought conditions experienced in California in recent years.

Heavy winter storms in 2017 and the Oroville Dam Spillway incident in February, 2017 caused damage to the Miners Ranch Canal, access roads to the Canal and a disruption in operations of the Kelly Ridge Powerhouse. Reimbursements for the Agency's costs, and the cost of lost power generation, associated with the storms and the Spillway incident are being filed with FEMA, ACWA/JPIA (the Agency's property insurance provider), and the State of California Department of Water Resources.

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the South Feather Water and Power Agency's finances for those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to South Feather Water and Power Agency, at 2310 Oro-Quincy Hwy, Oroville, California 95966.

SOUTH FEATHER WATER AND POWER AGENCY

STATEMENTS OF NET POSITION

December 31, 2016 and 2015

| | 2016 | 2015 |
|--------------------------------------|---------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and investments | \$ 28,671,633 | \$ 29,078,651 |
| Accounts receivable | 2,308,183 | 4,703,174 |
| Accrued interest receivable | 28,234 | 11,515 |
| Property taxes receivable | 259,856 | 258,610 |
| Inventory | 752,930 | 805,946 |
| Prepaid expenses | 326,457 | 355,826 |
| Loans receivable | 14,117 | 7,062 |
| TOTAL CURRENT ASSETS | 32,361,410 | 35,220,784 |
| RESTRICTED ASSETS | | |
| Cash with fiscal agents | 20,014,266 | 549,475 |
| CAPITAL ASSETS | | |
| Not being depreciated | 36,343,923 | 27,783,558 |
| Being depreciated | 147,917,535 | 146,768,097 |
| Less: accumulated depreciation | (106,396,020) | (103,888,032) |
| TOTAL CAPITAL ASSETS, NET | 77,865,438 | 70,663,623 |
| TOTAL ASSETS | 130,241,114 | 106,433,882 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pensions | 2,415,846 | 1,581,563 |
| Deferred loss on bond refunding | 98,583 | 111,171 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 2,514,429 | 1,692,734 |

SOUTH FEATHER WATER AND POWER AGENCY

STATEMENTS OF NET POSITION (Continued)

December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 2,325,411 | \$ 2,361,436 |
| Accrued payroll | 277,987 | 262,218 |
| Accrued interest payable | 173,256 | 15,877 |
| Deposits | 147,972 | 84,364 |
| Retainage payable | 1,001,742 | 549,475 |
| Other payables | 33,351 | 44,062 |
| Current portion of long-term liabilities | 625,824 | 767,667 |
| TOTAL CURRENT LIABILITIES | <u>4,585,543</u> | <u>4,085,099</u> |
| LONG-TERM LIABILITIES | | |
| Long-term debt, net of current portion | 27,376,907 | 9,588,118 |
| Compensated absences, net of current portion | 762,764 | 727,007 |
| Net OPEB obligation | 5,230,136 | 4,631,191 |
| Net pension liability | 3,862,276 | 2,781,438 |
| TOTAL LONG-TERM LIABILITIES | <u>37,232,083</u> | <u>17,727,754</u> |
| TOTAL LIABILITIES | 41,817,626 | 21,812,853 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pensions | 443,383 | 676,850 |
| NET POSITION | | |
| Net investment in capital assets | 69,324,139 | 60,757,508 |
| Restricted for capacity expansion | 1,481,315 | 1,400,273 |
| Unrestricted | 19,689,080 | 23,479,132 |
| TOTAL NET POSITION | <u>\$ 90,494,534</u> | <u>\$ 85,636,913</u> |

The notes to the financial statements are an integral part of this statement.

SOUTH FEATHER WATER AND POWER AGENCY

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the years ended December 31, 2016 and 2015

| | 2016 | 2015 |
|--|----------------------|----------------------|
| OPERATING REVENUES | | |
| Domestic water sales | \$ 2,051,320 | \$ 2,009,002 |
| Irrigation water sales | 227,744 | 242,306 |
| Sale of electricity | 17,253,321 | 12,541,221 |
| Other services | 593,496 | 7,721,784 |
| TOTAL OPERATING REVENUES | 20,125,881 | 22,514,313 |
| OPERATING EXPENSES | | |
| Source of supply | 13,582 | 13,213 |
| Water treatment | 1,157,375 | 1,139,272 |
| Environmental health and safety | 510,150 | 558,121 |
| Transmission and distribution | 1,891,722 | 1,855,041 |
| Customer accounts | 603,770 | 703,032 |
| Plant operations | 5,628,388 | 5,804,762 |
| General and administrative | 4,028,823 | 3,561,808 |
| Other operating expenses | 57,031 | 47,709 |
| Depreciation | 2,507,988 | 2,471,962 |
| TOTAL OPERATING EXPENSES | 16,398,829 | 16,154,920 |
| NET INCOME FROM OPERATIONS | 3,727,052 | 6,359,393 |
| NON-OPERATING REVENUE (EXPENSES) | | |
| Interest and penalty income | 179,907 | 100,163 |
| Property taxes | 531,696 | 517,354 |
| Insurance refund | 2,004 | 10,858 |
| Loss on sale and disposition of capital assets | | (40,361) |
| Interest expense | (345,470) | (170,869) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 368,137 | 417,145 |
| CAPITAL CONTRIBUTIONS | | |
| Capital reimbursements | 698,467 | 5,570,770 |
| System capacity charges | 63,965 | 31,051 |
| TOTAL CAPITAL CONTRIBUTIONS | 762,432 | 5,601,821 |
| CHANGE IN NET POSITION | 4,857,621 | 12,378,359 |
| Net position at beginning of year | 85,636,913 | 73,258,554 |
| NET POSITION AT END OF YEAR | \$ 90,494,534 | \$ 85,636,913 |

The notes to the financial statements are an integral part of this statement.

SOUTH FEATHER WATER AND POWER AGENCY

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

| | 2016 | 2015 |
|--|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 22,584,480 | \$ 20,877,914 |
| Cash paid to suppliers for goods and services | (4,798,425) | (3,597,598) |
| Cash paid to employees for services | (8,474,109) | (9,431,328) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 9,311,946 | 7,848,988 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Property taxes received | 530,450 | 504,592 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 530,450 | 504,592 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital reimbursements received | 698,467 | 5,570,770 |
| System capacity charges received | 63,965 | 31,051 |
| Acquisition of capital assets | (9,257,536) | (13,250,306) |
| Proceeds from insurance refund | 2,004 | 10,858 |
| Proceeds from loans payable | 28,678,881 | 8,446,756 |
| Payments on bonds and loans payable | (10,955,272) | (1,434,903) |
| Interest paid | (178,320) | (160,356) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | 9,052,189 | (786,130) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income received | 163,188 | 96,956 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 163,188 | 96,956 |
| NET INCREASE IN CASH | 19,057,773 | 7,664,406 |
| Cash and cash equivalents at beginning of year | 29,628,126 | 21,963,720 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 48,685,899 | \$ 29,628,126 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION | | |
| Cash and investments | \$ 28,671,633 | \$ 29,078,651 |
| Cash with fiscal agents | 20,014,266 | \$ 549,475 |
| TOTAL CASH AND CASH EQUIVALENTS | \$ 48,685,899 | \$ 29,628,126 |

(Continued)

SOUTH FEATHER WATER AND POWER AGENCY

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Net income from operations | \$ 3,727,052 | \$ 6,359,393 |
| Adjustments to reconcile net income from operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,507,988 | 2,471,962 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 2,394,991 | (1,644,134) |
| Inventory | 53,016 | 5,614 |
| Prepaid expenses | 29,369 | 5,602 |
| Loans receivable | (7,055) | (1,969) |
| Accounts payable | (36,025) | 334,496 |
| Accrued payroll | 15,769 | 18,956 |
| Deposits | 63,608 | 7,735 |
| Other payables | (10,711) | 38,795 |
| Compensated absences | (38,089) | 121,561 |
| OPEB obligation | 598,945 | 641,042 |
| Net pension liability and related deferred inflows (outflows) | <u>13,088</u> | <u>(510,065)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 9,311,946</u> | <u>\$ 7,848,988</u> |

The notes to the financial statements are an integral part of this statement.

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the South Feather Water and Power Agency (the Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

Reporting Entity: The South Feather Water and Power Agency (formerly known as Oroville-Wyandotte Irrigation District) was formed November 18, 1919, under Irrigation Law, Division II, of the California Water Code. The Agency provides domestic and irrigation water, and generates electrical power that is sold to the Pacific Gas & Electric Company.

In April, 1995, the Agency approved the formation of the Oroville-Wyandotte Irrigation District Financing Corporation (the Corporation). This corporation is a nonprofit public benefit corporation and is organized under the Nonprofit Public Benefit Corporation Law (commencing at Section 5110 of the California Corporations Code). The purpose of the Corporation is to provide assistance to public agencies in the State of California, in the financing, acquiring, constructing, rehabilitating or financing various public facilities, land and equipment for the use, benefit and enjoyment of the public.

Although the Agency and Corporation are legally separate entities, the Agency exercises oversight responsibility over the Corporation. The Corporation is reported as if it were part of the primary government because it shares a common Board of Directors with the Agency and its sole purpose is to provide financing to the Agency under the debt issuance documents of the Agency. Debt issued by the Corporation is reflected as debt of the Agency in these financial statements. The Corporation has no other transactions and does not issue separate financial statements.

Basis of Presentation: The Agency's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that period determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position for the enterprise fund represents the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the fund are included on the balance sheet. Net position is segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

In the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

SOUTH FEATHER WATER AND POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the Agency may fund certain programs with a combination of cost-reimbursement grants and general revenues. Thus, both restricted and unrestricted net position are available to finance program expenses. The Agency's policy is to first apply restricted grant resources to such programs, followed by general revenues, if necessary.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. The principal operating revenues of the Agency are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments: For the purposes of the Statement of Cash Flows, the Agency's cash and cash equivalents include restricted and unrestricted cash on hand or on deposit, and demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Agency has adopted a formal investment policy as required by Section 53600et seq., of the California Government Code. The Agency Treasurer has responsibility for selecting depositories and investing idle funds in accordance with the adopted investment policy. See Note B for additional information on the Agency's cash and investments.

Investments for the Agency are reported at fair value. The Local Agency Investment Fund (LAIF) is a special fund of the California State Treasury through which local governments may pool investments. The Agency may invest up to \$40,000,000 in the fund. Investments in LAIF are highly liquid as deposits can be converted to cash within 24 hours without loss of interest. Funds deposited in LAIF are invested in accordance with Government Code Sections 16430 and 16480. Oversight of LAIF is provided by the Pooled Money Investment Board whose members are the California State Treasurer, California Director of Financial and the California State Controller. For the purpose of these financial statements, the fair value of amounts in LAIF is equivalent to dollars held.

Receivables and Payables: Receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts, if applicable, and estimated refunds due. Business-type activities report utilities, reimbursements, and interest earnings as their major receivables. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of the interfund loans) or "advances to/from other funds" (i.e. the non-current portion of the interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

SOUTH FEATHER WATER AND POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The Agency utilizes the allowance method with respect to its accounts receivable. Delinquent water charges are submitted to the County Tax Assessor annually to be encumbered on the secured property tax bills. Therefore, no allowance was deemed necessary at December 31, 2016 and 2015.

Property Taxes: Property tax revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Butte levies, bills and collects property taxes and special assessments for the Agency. Under the County's "Teeter Plan", the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Agency in the fiscal year they are assessed.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on July 1. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

Inventories and Prepaid Items: Inventories are valued at average cost using the first-in, first out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Loans Receivable: The Agency has a computer acquisition program, where the Agency purchases a computer for an employee and is then repaid through payroll deductions from the employee's pay.

Capital Assets: Capital assets, which include property, plant, equipment, and infrastructure assets, are reported on the Statement of Net Position. Capital assets are currently defined by the Agency as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are valued at historical cost. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Interest is capitalized on assets acquired with debt. The amount of interest to be capitalized is offset by interest earned in invested debt proceeds over the construction period.

Depreciation is provided over the useful lives of assets using the straight-line method. Estimated useful lives of all depreciable assets are as follows:

| | |
|---------------------------------------|---------------|
| Dams, powerhouses and treatment plant | 40 - 50 years |
| Pipelines | 50 years |
| Other general assets | 3 - 10 years |
| Other power-related assets | 5 - 50 years |

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Compensated Absences: The Agency policy allows employees to accumulate earned but unused annual leave, which will be paid to employees upon separation from the Agency's service. The cost of annual leave is recognized in the period earned. Upon separation from the Agency, employees can elect to be paid one-half of their accumulated sick leave time. This amount is also recognized in the period earned.

Long-Term Liabilities: Long-term liabilities and other long-term obligations are reported on the Statement of Net Position. Initial issue bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Amortization of bond premiums or discounts and deferred amounts on refunding is included in interest expense. The cost of issuing debt is expensed as incurred.

Interfund Transactions: Transactions between funds of the Agency are recorded as interfund transfers on the Combining Schedule of Revenues, Expenses, and Changes in Net Position. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds. These amounts are eliminated from the combined financial statements.

Net Position: The net position amount is the difference between assets and liabilities. Net investment in capital assets are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets excluding unspent debt proceeds. Net position is reported as restricted when there are legal limitations imposed on their use by the Agency or external restrictions by other governments, creditors or grantors.

Management Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts in 2015 have been reclassified to conform to the 2016 financial statement presentation. The reclassifications had no effect on total net position or change in net position.

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

Deferred Inflows and Outflows: The statement of net position includes a separate section for deferred outflows and deferred inflows of resources. *Deferred outflows of resources* represent a consumption of net position by the government that is applicable to a future reporting period. *Deferred inflows of resources* represent an acquisition of net position that is applicable to a future reporting period. These amounts will be not be recognized as an outflow of resources (expenditures/expense) or an inflow of resources (revenue) until the earnings process is complete. Deferred outflows and inflows of resources include amounts deferred related to the Agency's pension plan as described in Note F.

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

New Pronouncements: In June 2015, the GASB issued Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)”, replaces the requirements of GASB Statement No. 45 and requires governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria to report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments, on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective beginning the year ended December 31, 2018.

In June 2016, the GASB issued Statement No. 82 that clarifies certain issues raised in implementation of GASB No. 68. This Statement is effective for the year ending December 31, 2017.

The Agency is currently analyzing the impact of the required implementation of these new statements.

NOTE B – CASH AND INVESTMENTS

Cash and investments are classified in the financial statements as shown below:

| | 2016 | 2015 |
|------------------------------------|---------------|---------------|
| Cash and investments | \$ 28,671,633 | \$ 29,078,651 |
| Restricted cash with fiscal agents | 20,014,266 | 549,475 |
| Total cash and investments | \$ 48,685,899 | \$ 29,628,126 |

Cash and cash equivalents were comprised of the following:

| | 2016 | 2015 |
|--------------------------------------|---------------|---------------|
| Cash on hand | \$ 950 | \$ 950 |
| Deposits with financial institutions | 2,743,379 | 4,881,169 |
| Total cash | 2,744,329 | 4,882,119 |
| Money market mutual funds | 20,396,818 | 1,294,834 |
| Local Agency Investment Fund | 18,394,789 | 17,771,037 |
| Negotiable certificates of deposit | 6,067,444 | 4,268,287 |
| Municipal and corporate bonds | | 1,411,849 |
| U.S. government agency securities | 1,082,520 | |
| Total investments | 45,941,571 | 24,746,007 |
| Total cash and investments | \$ 48,685,899 | \$ 29,628,126 |

SOUTH FEATHER WATER AND POWER AGENCY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE B – CASH AND INVESTMENTS (Continued)

The table below identifies the investment types that are authorized by the Agency’s investment policy:

| Authorized Investment Type | Maximum Maturity | Maximum Total of Portfolio | Maximum Investment in One Issuer |
|--|------------------|----------------------------|----------------------------------|
| Bonds issued by the Agency | None | No Limit | None |
| U.S. Treasury Obligations | None | No Limit | None |
| State of California Obligations | None | No Limit | None |
| Local Agency Investment Fund (LAIF) | N/A | No Limit | None |
| Banker's Acceptances | 270 days | 40% | 30% |
| Commercial Paper - U.S. Companies | 180 days | 15% | None |
| Certificates of Deposit | None | 30% | None |
| Repurchase Agreements | None | Per Government Code | Per Government Code |
| Medium Term Notes | 5 years | 30% | None |
| Money Market Mutual Funds | N/A | 15% | None |
| Mortgage Obligations | 5 years | 30% | None |
| Other Investments as permitted by the California Government Code | N/A | Per Government Code | Per Government Code |

Investments Authorized by Debt Agreements: Investments held by the bond/COP fiscal agents (trustees) are governed by the provisions of the various debt indenture agreements rather than the general provisions of the Agency's investments policy or the California Government Code.

Disclosures relating to Interest Rate Risk and Credit Risk: Interest rate risk is the risk in the market rate changes that could adversely affect the fair values of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for Agency operations.

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

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE B – CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the Agency's investments (including investments held by the bond trustee) to market rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity, as well as the credit ratings, as applicable from Standard & Poor's or Moody's as of December 31, 2016 and 2015:

| | Credit Rating | Remaining Maturity | | |
|--------------------------------------|---------------|----------------------|---------------------|----------------------|
| | | 12 months or less | 1-5 years | Fair Value |
| <u>December 31, 2016</u> | | | | |
| Money market mutual funds | Not Rated | \$ 20,396,818 | | \$ 20,396,818 |
| Local Agency Investment Funds (LAIF) | Not Rated | 18,394,789 | | 18,394,789 |
| Negotiable certificates of deposits | Not Rated | 2,247,967 | \$ 3,819,477 | 6,067,444 |
| U.S. government agency securities | AAA | 240,094 | 842,426 | 1,082,520 |
| | | <u>\$ 41,279,668</u> | <u>\$ 4,661,903</u> | <u>\$ 45,941,571</u> |
| | | | | |
| | Credit Rating | Remaining Maturity | | |
| | | 12 months or less | 1-5 years | Fair Value |
| <u>December 31, 2015</u> | | | | |
| Money market mutual funds | Not Rated | \$ 1,294,834 | | \$ 1,294,834 |
| Local Agency Investment Funds (LAIF) | Not Rated | 17,771,037 | | 17,771,037 |
| Negotiable certificates of deposits | Not Rated | 1,019,466 | \$ 3,248,821 | 4,268,287 |
| Corporate Bonds | AA- | 471,218 | | 471,218 |
| | A | 239,654 | 237,072 | 476,726 |
| | A- | 463,905 | | 463,905 |
| | | <u>\$ 21,260,114</u> | <u>\$ 3,485,893</u> | <u>\$ 24,746,007</u> |

Fair Value Measurement: The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

SOUTH FEATHER WATER AND POWER AGENCY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE B – CASH AND INVESTMENTS (Continued)

The Agency has the following recurring fair value measurements as of December 31, 2016:

| | Total | Fair Value Measurements Using | | |
|---|----------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level | | | | |
| Money Market Funds | \$ 20,396,818 | | \$ 20,396,818 | |
| U.S. Government Agency Obligations | 1,082,520 | | 1,082,520 | |
| Negotiable Certificates of Deposit | 6,067,444 | | 6,067,444 | |
| Total investments by fair value level | <u>27,546,782</u> | <u>-</u> | <u>\$ 27,546,782</u> | <u>-</u> |
| Investments measured at net asset value | | | | |
| California Local Agency Investment Fund | <u>18,394,789</u> | | | |
| | <u>\$ 45,941,571</u> | | | |

All securities classified in Level 2 are valued using pricing models that are based on market data, such as matrix or model pricing, which use standard inputs, which include benchmark yields, reported trades, broker/dealer quotes, issue spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications.

Concentration of Credit Risk: The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of December 31, 2016 and 2015 there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represented 5% or more of the total Agency investments.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure of custodial risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must be equal to at least 100% of the total amount deposited by public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE B – CASH AND INVESTMENTS (Continued)

As of December 31, 2016 and 2015, the deposits with financial institutions, in excess of the federal depository insurance limits, were collateralized as required by law. As of December 31, 2016, the carrying amount of the Agency's bank deposits totaled \$2,743,379 and the bank balances totaled \$3,209,950. The differences between the carrying amounts and the bank totals are due to the normal deposits in transit and outstanding checks. At December 31, 2016, there was an uninsured balance for the Agency of \$1,960,950.

Investment in LAIF: The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investments in this pool is classified as a cash equivalent in the accompanying financial statements.

LAIF is stated at fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$73,794,358,303, managed by the State Treasurer. Of that amount, 2.66% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

SOUTH FEATHER WATER AND POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

| | Balance at January 1, 2016 | Additions | Disposals | Transfers | Balance at December 31, 2016 |
|---|----------------------------------|----------------------------|--------------------|--------------------|------------------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land, land rights and water rights | \$ 2,138,103 | | | | \$ 2,138,103 |
| Construction in progress | 19,929,149 | \$ 9,176,014 | | \$ (615,650) | 28,489,513 |
| FERC relicensing in progress | 5,716,306 | | | | 5,716,306 |
| Total capital assets, not being depreciated | <u>27,783,558</u> | <u>9,176,014</u> | | <u>(615,650)</u> | <u>36,343,922</u> |
| Capital assets, being depreciated: | | | | | |
| Source of supply | 99,709,259 | | | 491,620 | 100,200,879 |
| Pumping plant | 362,297 | | | | 362,297 |
| Miners Ranch Treatment Plant, treatment and transmissions and distribution facilities | 32,533,163 | 4,998 | | 79,395 | 32,617,556 |
| General plant and yard | 10,947,847 | 528,791 | | 44,635 | 11,521,273 |
| Tail water depression system | 124,445 | | | | 124,445 |
| Photovoltaic system | 2,142,701 | | | | 2,142,701 |
| Recreational facilities | 948,385 | | | | 948,385 |
| Total capital assets being depreciated | <u>146,768,097</u> | <u>533,789</u> | | <u>615,650</u> | <u>147,917,536</u> |
| Less: accumulated depreciation: | | | | | |
| Source of supply | (77,680,709) | (1,332,652) | | | (79,013,361) |
| Pumping plant | (312,301) | (4,255) | | | (316,556) |
| Miners Ranch Treatment Plant, treatment and transmissions and distribution facilities | (18,296,188) | (616,710) | | | (18,912,898) |
| General plant and yard | (6,026,176) | (468,541) | | | (6,494,717) |
| Tail water depression system | (124,445) | | | | (124,445) |
| Photovoltaic system | (618,994) | (53,568) | | | (672,562) |
| Recreational facilities | (829,219) | (32,262) | | | (861,481) |
| Total accumulated depreciation | <u>(103,888,032)</u> | <u>(2,507,988)</u> | | | <u>(106,396,020)</u> |
| Total capital assets being depreciated, net | <u>42,880,065</u> | <u>(1,974,199)</u> | | <u>615,650</u> | <u>41,521,516</u> |
| CAPITAL ASSETS, NET | <u><u>\$ 70,663,623</u></u> | <u><u>\$ 7,201,815</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 77,865,438</u></u> |

Depreciation expense for the year ended December 31, 2016 totaled \$2,507,988.

SOUTH FEATHER WATER AND POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE C – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2015 was as follows:

| | Balance at January 1, 2015 | Additions | Disposals | Transfers | Balance at December 31, 2015 |
|---|----------------------------------|----------------------|--------------------|------------------|------------------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land, land rights and water rights | \$ 2,138,103 | | | | \$ 2,138,103 |
| Construction in progress | 5,462,845 | \$ 15,250,425 | \$ (40,361) | \$ (743,760) | 19,929,149 |
| FERC relicensing in progress | 5,716,306 | | | | 5,716,306 |
| Total capital assets, not being depreciated | <u>13,317,254</u> | <u>15,250,425</u> | <u>(40,361)</u> | <u>(743,760)</u> | <u>27,783,558</u> |
| Capital assets, being depreciated: | | | | | |
| Source of supply | 99,257,883 | 5,630 | | 445,746 | 99,709,259 |
| Pumping plant | 362,297 | | | | 362,297 |
| Miners Ranch Treatment Plant, treatment and transmissions and distribution facilities | 32,206,287 | 49,412 | | 277,464 | 32,533,163 |
| General plant and yard | 10,810,313 | 116,984 | | 20,550 | 10,947,847 |
| Tail water depression system | 124,445 | | | | 124,445 |
| Photovoltaic system | 2,142,701 | | | | 2,142,701 |
| Recreational facilities | 948,385 | | | | 948,385 |
| Total capital assets being depreciated | <u>145,852,311</u> | <u>172,026</u> | | <u>743,760</u> | <u>146,768,097</u> |
| Less: accumulated depreciation: | | | | | |
| Source of supply | (76,369,358) | (1,311,351) | | | (77,680,709) |
| Pumping plant | (308,046) | (4,255) | | | (312,301) |
| Miners Ranch Treatment Plant, treatment and transmissions and distribution facilities | (17,724,053) | (572,135) | | | (18,296,188) |
| General plant and yard | (5,527,784) | (498,392) | | | (6,026,176) |
| Tail water depression system | (124,445) | | | | (124,445) |
| Photovoltaic system | (565,426) | (53,568) | | | (618,994) |
| Recreational facilities | (796,958) | (32,261) | | | (829,219) |
| Total accumulated depreciation | <u>(101,416,070)</u> | <u>(2,471,962)</u> | | | <u>(103,888,032)</u> |
| Total capital assets being depreciated, net | <u>44,436,241</u> | <u>(2,299,936)</u> | | <u>743,760</u> | <u>42,880,065</u> |
| CAPITAL ASSETS, NET | <u>\$ 57,753,495</u> | <u>\$ 12,950,489</u> | <u>\$ (40,361)</u> | <u>\$ -</u> | <u>\$ 70,663,623</u> |

Depreciation expense for the year ended December 31, 2015 totaled \$2,471,962.

SOUTH FEATHER WATER AND POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE D – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended December 31, 2016:

| | January 1, 2016 | Additions | Reductions | December 31, 2016 | Due Within One Year |
|------------------------------------|--------------------|---------------|-----------------|----------------------|------------------------|
| 2012 Revenue Refunding Bonds | \$ 2,369,727 | | \$ (2,369,727) | - | |
| 2016 Certificates of Participation | | \$ 27,010,000 | | \$ 27,010,000 | \$ 250,000 |
| Loan Payable | 7,536,388 | 1,161,771 | (8,585,545) | 112,614 | |
| Total | 9,906,115 | 28,171,771 | (10,955,272) | 27,122,614 | 250,000 |
| Unamortized premiums | | 507,110 | (2,817) | 504,293 | |
| Total Debt and Loans | 9,906,115 | 28,678,881 | (10,958,089) | 27,626,907 | 250,000 |
| Compensated absences | 1,176,677 | 449,670 | (487,759) | 1,138,588 | 375,824 |
| Other post-employment benefits | 4,631,191 | 884,862 | (285,917) | 5,230,136 | |
| Net pension liability | 2,781,438 | 1,080,838 | | 3,862,276 | |
| Total Long-Term Liabilities | \$ 18,495,421 | \$ 31,094,251 | \$ (11,731,765) | \$ 37,857,907 | \$ 625,824 |

The following is a summary of changes in long-term liabilities for the year ended December 31, 2015:

| | January 1, 2015 | Additions | Reductions | December 31, 2015 | Due Within One Year |
|--------------------------------|--------------------|--------------|----------------|----------------------|------------------------|
| 2012 Revenue Refunding Bonds | \$ 2,679,630 | | \$ (309,903) | \$ 2,369,727 | \$ 317,997 |
| Loan Payable | 214,632 | \$ 8,446,756 | (1,125,000) | 7,536,388 | |
| Total Long-Term Debt | 2,894,262 | 8,446,756 | (1,434,903) | 9,906,115 | 317,997 |
| Compensated absences | 1,055,116 | 449,670 | (328,109) | 1,176,677 | 449,670 |
| Other post-employment benefits | 3,990,149 | 894,864 | (253,822) | 4,631,191 | |
| Net pension liability | 2,720,542 | 60,896 | | 2,781,438 | |
| Total Long-Term Liabilities | \$ 10,660,069 | \$ 9,852,186 | \$ (2,016,834) | \$ 18,495,421 | \$ 767,667 |

A description of the long-term liabilities is as follows:

2012 Revenue Refunding Bonds: In October 2012, the District issued \$3,342,264 of Revenue Refunding Bonds with interest of 2.68%. Semi-annual principal payments, ranging from \$96,000 to \$217,000, were due on April 1 and October 1 through April 1, 2024 and semi-annual interest payments, ranging from \$1,400 to \$41,900 were due on April 1 and October 1 through April 1, 2024. These 2012 Revenue Refunding Bonds were issued to refund the 1980 Miners Ranch Domestic Revenue Bonds and the 2003 Certificates of Participation. The bonds were defeased in 2016 with the proceeds of the 2016 Certificates of Participation.

2016 Certificates of Participation: In October 2016, the Agency issued \$27,010,000 of Certificates of Participation with interest rates of 2% to 4%. These 2016 Certificates of Participation were issued to refund the 2012 Revenue Refunding Bonds and finance the Miners Ranch Water Treatment Plant

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE D – LONG-TERM LIABILITIES (Continued)

Improvement Project. The Agency is required to collect rates, fees, and charges that will be sufficient to yield net revenues equal to 125% of debt service payments on any future debt issued. Annual principal payments, ranging from \$250,000 to \$1,395,000, are due on April 1 through April 1, 2046 and semi-annual interest payments ranging from \$45,338 to \$873,475 are due on April 1 and October 1 through April 1, 2046.

The following is a schedule of debt service requirements to maturity for the 2016 Certificates of Participation Bonds as of December 31, 2016:

| Year ended December 31, | Principal | Interest | Totals |
|----------------------------|---------------|---------------|---------------|
| 2017 | \$ 250,000 | \$ 829,612 | \$ 1,079,612 |
| 2018 | 570,000 | 867,775 | 1,437,775 |
| 2019 | 580,000 | 853,375 | 1,433,375 |
| 2020 | 600,000 | 835,675 | 1,435,675 |
| 2021 | 615,000 | 817,450 | 1,432,450 |
| 2022-2026 | 3,380,000 | 3,779,900 | 7,159,900 |
| 2027-2031 | 4,065,000 | 3,074,275 | 7,139,275 |
| 2032-2036 | 4,800,000 | 2,342,775 | 7,142,775 |
| 2037-2041 | 5,590,000 | 1,531,726 | 7,121,726 |
| 2042-2046 | 6,560,000 | 546,488 | 7,106,488 |
| Total | \$ 27,010,000 | \$ 15,479,051 | \$ 42,489,051 |

Loan Payable: In February 2010, the Agency entered into a cost-sharing agreement with PG&E for funding of the Sly Creek Dam Crest Modification Project and the Lost Creek Dam Crest Modification Project. The agreement states that the Agency shall reimburse PG&E 60% of the final project costs incurred from January 1, 2009, plus simple interest that accrues monthly at a rate equal to the Wall Street Journal Prime Rate. If the actual costs exceed the initial cost estimate, the Agency shall reimburse PG&E 80% of the costs. All amounts due to PG&E from the Agency are due and payable by July 31, 2017. As of December 31, 2016 and 2015, the amount due to PG&E including interest totaled \$112,614 and \$7,536,388, respectively.

Pledged Revenue: The Agency pledge future revenues, net of specified expenses, to repay the 2016 Certificates of Participation in the original amount of \$27,010,000. Proceeds of the Certificates of Participation were used to refund the 2012 Revenue Refunding Bonds and finance the Miners Ranch Water Treatment Plant Improvement Project. The Certificates of Participation are payable solely from net revenues and are payable through April 2046. Annual principal and interest payments on the Certificates are expected to require less than 25% of net revenues. Total principal and interest remaining to be paid on the Certificates of Participation was \$42,489,050 at December 31, 2016.

Total principal and interest paid on all debt payable from net revenues was \$379,392 and \$379,673 and the total water system net revenues were \$6,448,647 and \$9,459,730 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the District's net revenues were 1,832% and 2,492% of debt service payments, respectively.

SOUTH FEATHER WATER AND POWER AGENCY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE D – LONG-TERM LIABILITIES (Continued)

Refundings: In October 2016, the Agency issued the 2016 Certificates of Participation in the amount of \$27,010,000 with interest rates of 2% to 4%, to refund \$2,051,813 of the 2012 Revenue Refunding Bonds with an interest rate of 2.68%. The Agency completed the advance refunding to reduce its total debt service payments over the next 30 years by \$56,966 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$63,873.

In October 2012, the Agency issued the 2012 Revenue Refunding Bonds in the amount of \$3,342,264 with an interest rate of 2.68%, to refund \$1,150,000 of the 1980 Miners Ranch Domestic Revenue Bonds and \$2,295,000 of the 2003 Certificates of Participation with an average interest rate of 5.04%. The Agency completed the advance refunding to reduce its total debt service payments through 2024. The advance refunding resulted in differences between the reacquisition price and the net carrying amount of the outstanding debt of \$98,583 at December 31, 2016, net of accumulated amortization. This deferred amount on refunding, reported in the accompanying financial statements as a deferred outflow, continues to be charged to operations through 2024 using the straight-line method.

NOTE E – NET POSITION

Restrictions: Restricted net position consist of constraints placed on net position use through external requirements imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints by law through constitutional provisions or enabling legislation. Restricted net position consisted of the following at December 31:

Restricted for capital facilities – As required by Section 66013 of the Water Code of the State of California, the restriction for capacity expansion represents system capacity fees to be used to construct new capital facilities to benefit existing Agency customers.

Designations: Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. Designations included the following as of December 31:

| | 2016 | 2015 |
|---------------------------------|---------------|---------------|
| Retiree benefits | \$ 3,354,379 | \$ 3,333,160 |
| Undesignated | 16,334,701 | 20,145,972 |
| Total Unrestricted Net Position | \$ 19,689,080 | \$ 23,479,132 |

NOTE F – PENSION PLANS

Plan Descriptions: All qualified permanent and probationary employees are eligible to participate in the Agency’s cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). The Board has the following cost-sharing Plans:

- Miscellaneous Plan
- PEPRA Miscellaneous Plan

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE F – PENSION PLANS (Continued)

Benefit provisions under the Plans are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the following: the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at December 31, 2016 and 2015, are summarized as follows:

| Hire date | Miscellaneous Plan (Prior to January 1, 2013) | PEPRA Miscellaneous Plan (On or after January 1, 2013) |
|---|---|---|
| Benefit formula (at full retirement) | 3.0% @ 60 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 60 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 3.0% | 1.0% to 2.5% |
| Required employer contribution rates: | | |
| January 1 to June 30, 2016 | 11.065% | 6.237% |
| July 1 to December 31, 2016 | 11.995% | 6.555% |
| January 1 to June 30, 2015 | 16.161% | 6.250% |
| July 1 to December 31, 2015 | 11.065% | 6.237% |
| Required employee contribution rates: | | |
| 2016 | 8.000% | 6.250% |
| 2015 | 8.000% | 6.250% |

In addition to the contribution rates above, the Agency was required to make payments of \$130,207 and \$110,820 toward its unfunded actuarial liability during the years ended December 31, 2016 and 2015, respectively.

The Miscellaneous Plan is closed to new members that are not already CalPERS eligible participants.

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

SOUTH FEATHER WATER AND POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE F – PENSION PLANS (Continued)

For the years ended December 31, 2016 and 2015, the contractually required contributions made to the Plans were \$596,806 and \$729,747.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:
As of December 31, 2016 and 2015, the Agency reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$3,862,276 and \$2,781,438, respectively.

The Agency'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 and 2015, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2015 and 2014 rolled forward to June 30, 2016 and 2015, respectively, using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2015 was as follows:

| | |
|------------------------------|------------|
| Proportion - June 30, 2015 | .101384% |
| Proportion - June 30, 2016 | .111181% |
| Change - Increase (Decrease) | (.009797)% |
| | |
| Proportion - June 30, 2014 | .110077% |
| Proportion - June 30, 2015 | .101384% |
| Change - Increase (Decrease) | (.008630)% |

For the years ended December 31, 2016 and 2015, the Agency recognized pension expense of \$741,883 and \$326,579, respectively. At December 31, the Agency reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

| | 2016 | | 2015 | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | \$ 465,128 | | \$ 352,883 | |
| Differences between actual and expected experience | 24,804 | \$ (5,683) | 54,809 | |
| Changes in assumptions | | (234,669) | | \$ (518,541) |
| Differences between the employer's contribution and the employer's proportionate share of contributions | 91,721 | (167,320) | 206,373 | |
| Change in employer's proportion | 612,820 | (35,711) | 324,049 | (158,309) |
| Net differences between projected and actual earnings on plan investments | 1,221,373 | | 643,449 | |
| Total | \$ 2,415,846 | \$ (443,383) | \$ 1,581,563 | \$ (676,850) |

SOUTH FEATHER WATER AND POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE F – PENSION PLANS (Continued)

The \$465,128 and \$352,883 reported as deferred outflows of resources related to contributions subsequent to the measurement date at December 31, 2016 and 2015 will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as net deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended December 31 | |
|---------------------------|---------------------|
| 2017 | \$ 458,566 |
| 2018 | 206,718 |
| 2019 | 525,701 |
| 2020 | <u>316,350</u> |
| | <u>\$ 1,507,335</u> |

Actuarial Assumptions: The total pension liabilities in the June 30, 2016 and 2015 actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

| | 2016 | 2015 |
|---------------------------|--|--|
| Valuation Date | June 30, 2015 | June 30, 2014 |
| Measurement Date | June 30, 2016 | June 30, 2015 |
| Actuarial Cost Method | Entry-Age Normal Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | | |
| Discount Rate | 7.65% | 7.65% |
| Inflation | 2.75% | 2.75% |
| Payroll Growth | 3.0% | 3.0% |
| Projected Salary Increase | 3.2% - 14.2% (1) | 3.2% - 14.2% (1) |
| Investment Rate of Return | 7.65%(2) | 7.65% (2) |
| Mortality | Derived using CalPERS Membership Data for all Funds | Derived using CalPERS Membership Data for all Funds |

(1) Depending on entry age and service

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. The underlying mortality assumptions used in the June 30, 2015 valuation were based on the results of a 2010 CalPERS experience study for the period from 1997 to 2004. Further details of the Experience Study can found on the CalPERS website.

Discount Rate: The discount rates used to measure the total pension liability was 7.65% for the June 30, 2016 and 2015 valuations. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE F – PENSION PLANS (Continued)

adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

| Asset Class | 2016 | | | 2015 | | |
|----------------------------------|--------------------------|-----------------------------|--------------------------|--------------------------|-----------------------------|--------------------------|
| | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
| Global Equity | 51.0% | 5.25% | 5.71% | 51.0% | 5.25% | 5.71% |
| Global Fixed Income | 20.0% | 0.99% | 2.43% | 19.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% | 10.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% | 10.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% | 2.0% | 4.50% | 5.09% |
| Liquidity | 1.0% | (0.55)% | (1.05)% | 2.0% | (0.55)% | (1.05)% |
| Total | <u>100.0%</u> | | | <u>100.0%</u> | | |

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

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

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE F – PENSION PLANS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Agency’s proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the Agency’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | 2016 | 2015 |
|-----------------------|--------------|--------------|
| 1% Decrease | 6.65% | 6.65% |
| Net Pension Liability | \$ 6,755,431 | \$ 4,664,665 |
| Current Discount Rate | 7.65% | 7.65% |
| Net Pension Liability | \$ 3,862,276 | \$ 2,781,438 |
| 1% Increase | 8.65% | 8.65% |
| Net Pension Liability | \$ 1,471,227 | \$ 1,226,615 |

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

Payable to the Pension Plan: At December 31, 2016 and 2015, the Agency reported payables for the outstanding amount of contributions payable to the pension plan of \$23,941 and \$22,634, respectively.

NOTE G – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Description of the Plan: The Agency participates as a single-employer in the Public Employees' Medical and Hospital Care Act (PEMHCA) provided through the California Public Employees' Retirement System (CalPERS). Employees can choose one of four medical options: Blue Shield HMO, PERSCare PPO, PERSSelect PPO, or PERSSelect PPO. In addition, dental and vision insurance are provided to employees, spouses, and dependents at no cost to the employee, through the Association of California Water Agencies Health Benefit Authority (ACWA-HBA).

For the years ended December 31, 2016 and 2015, the Agency had 29 retired employees participating in the program. The Agency currently has 59 active employees who may become eligible to retire and receive benefits in the future. Employees become eligible to retire and receive Agency-paid medical, dental, and vision benefits upon attainment of age 55 and 10 years of Agency service. The Agency also pays a 0.34% premium administrative charge for all retirees.

The Agency does not issue a separate stand-alone financial report for its OPEB plan.

Funding Policy: For active employees and dependents, the Agency contributes to the plan at a rate equal to the average of the premiums for all CalPERS plans available, excluding the plan with the lowest premium and the plan with the highest premium, in any given year. The Agency is currently funding the benefits on a pay-as-you-go basis. As of December 31, 2016, the Agency has \$3,354,379 designated in its Retiree Benefits Fund for future OPEB obligations. The Agency has also adopted a policy to contribute \$1,000,000 to the Retiree Benefits Fund in any year following two consecutive years of power generation revenue in excess of \$20,000,000.

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE G – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation: The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding, that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The following table shows the components of the Agency's annual OPEB cost for the year, the amount contributed to the plan, and the changes in the Agency's net OPEB obligation.

| | 2016 | 2015 |
|--|--------------|--------------|
| Annual required contribution | | |
| Service cost at year-end | \$ 429,570 | \$ 429,570 |
| 30-year amortization of funded liability | 527,565 | 527,565 |
| Total annual required contribution | 957,135 | 957,135 |
| Interest on net OPEB obligation | 185,248 | 159,606 |
| Adjustment on net OPEB obligation | (257,521) | (221,876) |
| Annual OPEB cost | 884,862 | 894,865 |
| Employer contributions | (285,917) | (253,823) |
| Net change in OPEB obligation | 598,945 | 641,042 |
| Net OPEB obligation, beginning of year | 4,631,191 | 3,990,149 |
| Net OPEB obligation, end of year | \$ 5,230,136 | \$ 4,631,191 |

| Year Ended | Annual OPEB Cost | Annual Employer Contribution | Percentage of Annual Cost Contributed | Net Ending OPEB |
|-------------------|---------------------|------------------------------------|---|--------------------|
| December 31, 2014 | \$ 917,625 | \$ 232,686 | 25% | \$ 3,990,149 |
| December 31, 2015 | 894,865 | 253,823 | 28% | 4,631,191 |
| December 31, 2016 | 884,862 | 285,917 | 32% | 5,230,136 |

Funded Status and Funding Progress: The funded status of the plan based on an actuarial study using age-adjusted premiums as of December 31, 2014 (the most recent actuarial report), was as follows:

| | |
|---|--------------|
| Actuarial accrued liability (AAL) | |
| Active employees | \$ 5,605,316 |
| Retired employees | 3,882,259 |
| | 9,487,575 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability (UAAL) | \$ 9,487,575 |
| Funded Ratio (actuarial value of plan assets / AAL) | 0.00% |
| Covered payroll (active plan members) | \$ 6,035,251 |
| UAAL as a percentage of covered payroll | 157% |

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE G – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on the values which the Agency's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because 2008 was the year of implementation of GASB Statement No. 45 and the Agency elected to apply the statement prospectively, only three years are presented in the schedule at this time. In future years, required trend data will be presented.

Actuarial Methods and Assumptions: Calculations of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return. The turnover rates were taken from a standard actuarial table according to the Crocker-Sarason Table T-5 less mortality, decreased by 20% at all ages. This factor was expected to match historical Agency turnover experience. Retirement rates for the valuation were based in part on the Agency's own experience and in part on the actuarial consultant's experience with agencies of similar size and charter. 10% of future retirees were assumed to waive coverage under PEMHCA. 60% of future retirees were assumed to have spouses at the time of retirement. Female spouses were assumed to be three years younger than male spouses. The healthcare trend rates are based on the actuarial consultant's knowledge of the general healthcare environment and the specific coverages offered by the Agency.

NOTE H – COMMITMENTS AND CONTINGENCIES

Various claims have been filed against the Agency. In the opinion of the Agency's management and legal counsel, the claims will not have a material impact on the basic financial statements.

The Agency entered into a contract on November 14, 2014 in the amount of \$19,626,090 for the Lost Creek Dam Improvement Project construction, of which \$12,582,734 was expended as of December 31, 2016. This contract has been terminated. The Agency has entered into a contract with another company to complete the project at a cost not to exceed \$20,444,839. The Agency has a construction management contract for the Lost Creek Dam modification project for \$9,851,028, of which \$3,219,780 has not yet been expended.

The Agency entered into a contract on March 24, 2015 for the Miners Ranch Water Treatment Improvement Project. Over \$6,000,000 has been expended on the project through December 31, 2016. Total construction costs of the project are estimated to be \$25,000,000.

SOUTH FEATHER WATER AND POWER AGENCY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE H – COMMITMENTS AND CONTINGENCIES (Continued)

In 2013, the Agency received a judgment in the amount of \$260,000 in County Superior Court against a contractor for failure to perform contractual duties. The Agency has assigned this judgment to a collection agency and will share in the amount collected. Due to uncertainty about the collection of this amount, no gain has been recorded in the financial statements.

In 2012, the Agency was sued by the State Water Contractors (SWC) alleging the Agency’s activities have a negative effect on the temperature of the Feather River. The SWC, through the Department of Water Resources (DWR), agreed as part of their renewal of the FERC license to operate the Oroville facilities to maintain water temperature standards in the Feather River. The SWC’s lawsuit claimed the Agency’s water discharge from the Kelly Ridge Powerhouse affects DWR’s ability to meet the temperature requirements. The Agency reached a settlement with the SWC resulting in the dismissal of the lawsuit. As part of the agreement, DWR may request the Agency to discharge water in Lake Oroville instead of through the Kelly Ridge Powerhouse for periods of seven to twenty-one days. As a result, the Agency would lose the capability to generate power, but would be reimbursed by DWR for the lost power revenue.

NOTE I – ECONOMIC DEPENDENCY

During 2016 and 2015, the Agency received 83% and 54%, respectively, of its total revenue from PG&E for power generated from the Agency’s power plants.

NOTE J – RISK MANAGEMENT

The Agency participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials liability, property damage, fidelity insurance and workers compensation liability. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group-purchased commercial excess insurance is obtained.

The Agency pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The Agency’s deductibles and maximum coverage are as follows:

| Coverage | ACWA/JPIA | Commercial Insurance | Deductible |
|---|--------------|-------------------------|--------------------|
| General and Auto Liability (Includes public officials liability) | \$ 5,000,000 | \$ 171,000,000 | None |
| Property Damage | 100,000 | 150,000,000 | \$ 1,000 to 50,000 |
| Fidelity | 100,000 | 1,000,000 | 1,000 |
| Workers' Compensation Liability | 2,000,000 | Statutory | None |
| Employers Liability | 2,000,000 | 2,000,000 | None |

The Agency continues to carry commercial insurance for all other risks of loss to cover all claims for risk of loss to which the Agency is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SOUTH FEATHER WATER AND POWER AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE K – AGREEMENT WITH PACIFIC GAS AND ELECTRIC COMPANY

The Agency has entered into a ten-year power purchase agreement with PG&E beginning July 1, 2010. Revenue to the Agency from this agreement is a combination of variable, market-based payments and a fixed monthly payment. Operations of the facilities will continue to be the responsibility of the Agency.

NOTE L – AGREEMENT WITH NORTH YUBA WATER DISTRICT

In May of 2005, an agreement was reached with North Yuba Water District (NYWD), previously known as the Yuba County Water District, which defines the settlement of water rights and the disposition of net hydroelectric project revenues beginning July 1, 2010. The agreement provides first for the payment of normal operating and maintenance expenses for the project, repayment of re-licensing expenses incurred by the Agency, payment of a minimal annual amount to the Agency and NYWD, the creation of a 15% working capital reserve, and the creation of a \$17,000,000 contingency reserve. Following the satisfaction of the obligations, then the remaining funds, or net power revenues, are distributed equally between the Agency and NYWD on a yearly basis prior to July 1. There was no net power revenue at December 31, 2016 and 2015.

NOTE M – RELICENSING

The Agency has been preparing for the relicensing of its Power Projects as required by the Federal Energy Regulatory Commission (FERC). In connection with the relicensing, the Agency has incurred expenses, entered into service contracts, and established cash reserves to pay for anticipated costs. Costs incurred for the relicensing are being capitalized, and will be amortized over the life of the new license once it has been issued by FERC. Total cost capitalized as of December 31, 2016 and 2015 amounted to \$5,716,306 for both years. The relicensing process is nearing its completion. The current FERC license expired on March 31, 2009. Until the relicensing process is completed, operations continue under the current FERC license conditions.

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REQUIRED SUPPLEMENTARY INFORMATION

SOUTH FEATHER WATER AND POWER AGENCY

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - (UNAUDITED)**

Last 10 Years

| | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|
| Proportion of the net pension liability | 0.111181% | 0.101384% | 0.110077% |
| Proportionate share of the net pension liability | \$ 3,862,276 | \$ 2,781,438 | \$ 2,720,542 |
| Covered - employee payroll - measurement period | \$ 5,570,519 | \$ 5,746,942 | \$ 5,118,332 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 69.33% | 48.40% | 53.15% |
| Plan fiduciary net position as a percentage of the total pension liability | 74.06% | 78.40% | 79.82% |

Notes to Schedule:

Omitted years: GASB Statement No. 68 was implemented during the year ended December 31, 2014. No information was available prior to this date.

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions: The June 30, 2015 Actuarial Valuation changed the discount rate from 7.50% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expense.

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN (UNAUDITED)

Last 10 Years

| | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|
| Contractually required contribution (actuarially determined) | \$ 596,806 | \$ 729,747 | \$ 431,342 |
| Contributions in relation to the actuarially determined contributions | (596,806) | (729,747) | (431,342) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| Covered - employee payroll - calendar year | \$ 5,374,903 | \$ 5,527,640 | \$ 5,382,338 |
| Contributions as a percentage of covered - employee payroll | 11.10% | 7.57% | 8.01% |

Valuation date:

June 30, 2014 June 30, 2013 June 30, 2012

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 13 years 14 years 15 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% 2.75% 2.75% |
| Salary increases | Varies by entry age and service |
| Investment rate of return | 7.50%, net of pension plan investment expense, including inflation |
| Retirement age | 50 years |

Omitted years: GASB Statement No. 68 was implemented during the year ended December 31, 2014. No information was available prior to this date.

SOUTH FEATHER WATER AND POWER AGENCY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR
OTHER POST EMPLOYMENT BENEFITS (OPEB)

| Actuarial Valuation Date | Normal Accrued Liability | Actuarial Value of Assets | Liability (Excess Assets) | Funded Status | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|--------------------------------|---------------------------------|---------------------------------|------------------|------------------------------|--|
| 12/31/08 | \$ 6,770,457 | \$ - | \$ 6,770,457 | 0% | \$ 4,879,030 | 139% |
| 12/31/11 | \$ 7,615,707 | \$ - | \$ 7,615,707 | 0% | \$ 5,319,312 | 143% |
| 12/31/14 | \$ 9,487,575 | \$ - | \$ 9,487,575 | 0% | \$ 6,035,251 | 157% |

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SUPPLEMENTARY INFORMATION

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SOUTH FEATHER WATER AND POWER AGENCY

DESCRIPTION OF COMBINING FUNDS

DECEMBER 31, 2016

Fund 01 - General Fund: This fund is used to account for the Agency's general operations, as well as activities related to the Sly Creek Power Project.

Fund 06 - Legacy Projects: This fund is used to account for activities related to the Agency's remaining cost-sharing projects under the Power Purchase Agreement with Pacific Gas & Electric.

Fund 07 - Joint Facilities Fund: This fund is used to account for revenues and expenses in accordance with the Agency's 2005 agreement with North Yuba Water District.

Fund 12 - Miners Ranch Treatment Plant (MRTP) System Capacity Fees: This fund is used to account for activity related to increasing the Miners Ranch Treatment Plant system capacity. The source of funds for these expenses are system capacity charges (one-time development fees) collected with the installation of new accounts.

Fund 51 - Retiree Benefits Fund: This fund is used to account for the Agency's Other Post Employment Benefits (OPEB) obligations.

Fund 59 - Debt Service Fund: This fund is used to account for the issuance of the 2016 Certificates of Participation.

SOUTH FEATHER WATER AND POWER AGENCY

COMBINING SCHEDULE OF NET POSITION

December 31, 2016

| | General Fund | Legacy Projects | Joint Facilities |
|--|----------------------|---------------------|----------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and investments | \$ 30,710 | \$ 567,877 | \$ 24,714,482 |
| Accounts receivable | 312,628 | 124,102 | 1,871,453 |
| Accrued interest receivable | 28,234 | | |
| Property taxes receivable | 259,856 | | |
| Inventory | 158,369 | | 594,561 |
| Prepaid expenses | 184,660 | 3,600 | 138,197 |
| Loans receivable | 14,117 | | |
| Due from other funds | 4,098,720 | | 8,535,476 |
| TOTAL CURRENT ASSETS | <u>5,087,294</u> | <u>695,579</u> | <u>35,854,169</u> |
| RESTRICTED ASSETS | | | |
| Cash with fiscal agents | 293,607 | 635,051 | |
| CAPITAL ASSETS | | | |
| Not being depreciated | 8,401,625 | 19,684,212 | 8,258,086 |
| Being depreciated | 54,032,852 | | 93,884,683 |
| Less: accumulated depreciation | (31,693,339) | | (74,702,681) |
| TOTAL CAPITAL ASSETS, NET | <u>30,741,138</u> | <u>19,684,212</u> | <u>27,440,088</u> |
| TOTAL ASSETS | <u>36,122,039</u> | <u>21,014,842</u> | <u>63,294,257</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pensions | 1,306,441 | | 1,109,405 |
| Deferred loss on bond refunding | 98,583 | | |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>1,405,024</u> | | <u>1,109,405</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 1,525,063 | 157,725 | 642,623 |
| Accrued payroll | 146,458 | 5,853 | 125,676 |
| Accrued interest payable | 1 | | |
| Deposits | 147,234 | | 738 |
| Retainage payable | 366,691 | 635,051 | |
| Other payables | 33,372 | (21) | |
| Due to other funds | 7,769,541 | 12,295,785 | |
| Current portion of long-term liabilities | 224,518 | | 151,306 |
| TOTAL CURRENT LIABILITIES | <u>10,212,878</u> | <u>13,094,393</u> | <u>920,343</u> |
| LONG-TERM LIABILITIES | | | |
| Compensated absences, net of current portion | 375,945 | | 386,819 |
| Long-term debt, net of current portion | | | 112,614 |
| Net OPEB obligation | 3,315,297 | | 1,914,839 |
| Net pension liability | 2,047,006 | | 1,815,270 |
| TOTAL LONG-TERM LIABILITIES | <u>5,738,248</u> | | <u>4,229,542</u> |
| TOTAL LIABILITIES | <u>15,951,126</u> | <u>13,094,393</u> | <u>5,149,885</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pensions | 234,993 | | 208,390 |
| NET POSITION | | | |
| Net investment in capital assets | 22,312,453 | 19,684,212 | 27,327,474 |
| Restricted for capacity expansion | | | |
| Unrestricted | (971,509) | (11,763,763) | 31,717,913 |
| TOTAL NET POSITION | <u>\$ 21,340,944</u> | <u>\$ 7,920,449</u> | <u>\$ 59,045,387</u> |

| M RTP System Capacity | Retiree Benefits | Debt Service | Total |
|-----------------------------|---------------------|-----------------|---------------|
| \$ 25,404 | \$ 3,333,160 | | \$ 28,671,633 |
| | | | 2,308,183 |
| | | | 28,234 |
| | | | 259,856 |
| | | | 752,930 |
| | | | 326,457 |
| | | | 14,117 |
| 7,409,911 | 21,219 | | 20,065,326 |
| 7,435,315 | 3,354,379 | | 52,426,736 |
| | | \$ 19,085,608 | 20,014,266 |
| | | | 36,343,923 |
| | | | 147,917,535 |
| | | | (106,396,020) |
| | | | 77,865,438 |
| 7,435,315 | 3,354,379 | 19,085,608 | 150,306,440 |
| | | | 2,415,846 |
| | | | 98,583 |
| | | | 2,514,429 |
| | | | 2,325,411 |
| | | | 277,987 |
| | | 173,255 | 173,256 |
| | | | 147,972 |
| | | | 1,001,742 |
| | | | 33,351 |
| | | | 20,065,326 |
| | | 250,000 | 625,824 |
| | | 423,255 | 24,650,869 |
| | | | 762,764 |
| | | 27,264,293 | 27,376,907 |
| | | | 5,230,136 |
| | | | 3,862,276 |
| | | 27,264,293 | 37,232,083 |
| | | 27,687,548 | 61,882,952 |
| | | | 443,383 |
| | | | 69,324,139 |
| 1,481,315 | | | 1,481,315 |
| 5,954,000 | 3,354,379 | (8,601,940) | 19,689,080 |
| \$ 7,435,315 | \$ 3,354,379 | \$ (8,601,940) | \$ 90,494,534 |

SOUTH FEATHER WATER AND POWER AGENCY

COMBINING SCHEDULE OF NET POSITION

December 31, 2015

| | General Fund | Legacy Projects | Joint Facilities |
|---|-----------------|--------------------|---------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and investments | \$ (112,348) | \$ 1,174,428 | \$ 23,283,138 |
| Accounts receivable | 229,696 | 2,967,229 | 1,506,249 |
| Accrued interest receivable | 11,515 | | |
| Property taxes receivable | 258,610 | | |
| Inventory | 159,349 | | 646,597 |
| Prepaid expenses | 191,325 | 3,600 | 160,901 |
| Loans receivable | 7,062 | | |
| Due from other funds | 1,694,217 | | 11,755,676 |
| TOTAL CURRENT ASSETS | 2,439,426 | 4,145,257 | 37,352,561 |
| RESTRICTED ASSETS | | | |
| Cash with fiscal agents | | 549,475 | |
| CAPITAL ASSETS | | | |
| Capital assets | | | |
| Not being depreciated | 2,756,226 | 17,906,398 | 7,120,934 |
| Being depreciated | 53,883,286 | | 92,884,811 |
| Less: accumulated depreciation | (30,537,552) | | (73,350,480) |
| TOTAL CAPITAL ASSETS, NET | 26,101,960 | 17,906,398 | 26,655,265 |
| TOTAL ASSETS | 28,541,386 | 22,601,130 | 64,007,826 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pensions | 864,271 | | 717,292 |
| Deferred loss on bond refunding | 111,171 | | |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 975,442 | | 717,292 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 324,985 | 1,374,169 | 662,282 |
| Accrued payroll | 148,878 | 5,853 | 107,487 |
| Accrued interest payable | 15,878 | (1) | |
| Deposits | 84,364 | | |
| Other payables | 44,083 | (21) | |
| Retainage payable | | 549,475 | |
| Due to other funds | | 13,449,893 | |
| Current portion of long-term liabilities | 580,361 | | 187,306 |
| TOTAL CURRENT LIABILITIES | 1,198,549 | 15,379,368 | 957,075 |
| LONG-TERM LIABILITIES | | | |
| Compensated absences, net of current portion | 367,347 | | 359,660 |
| Long-term debt, net of current portion | 2,051,730 | | 7,536,388 |
| Net OPEB obligation | 2,948,036 | | 1,683,155 |
| Net pension liability | 1,474,162 | | 1,307,276 |
| TOTAL LONG-TERM LIABILITIES | 6,841,275 | | 10,886,479 |
| TOTAL LIABILITIES | 8,039,824 | 15,379,368 | 11,843,554 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pensions | 358,731 | | 318,119 |
| NET POSITION | | | |
| Net investment in capital assets, net of related debt | 23,732,233 | 17,906,398 | 19,118,877 |
| Restricted for capacity expansion | | | |
| Unrestricted | (2,613,960) | (10,684,636) | 33,444,568 |
| TOTAL NET POSITION | \$ 21,118,273 | \$ 7,221,762 | \$ 52,563,445 |

| System Capacity | Retiree Benefits | Total |
|---------------------|---------------------|----------------------|
| \$ 1,400,273 | \$ 3,333,160 | \$ 29,078,651 |
| | | 4,703,174 |
| | | 11,515 |
| | | 258,610 |
| | | 805,946 |
| | | 355,826 |
| | | 7,062 |
| | | 13,449,893 |
| <u>1,400,273</u> | <u>3,333,160</u> | <u>48,670,677</u> |
| | | 549,475 |
| | | 27,783,558 |
| | | 146,768,097 |
| | | (103,888,032) |
| | | <u>70,663,623</u> |
| <u>1,400,273</u> | <u>3,333,160</u> | <u>119,883,775</u> |
| | | 1,581,563 |
| | | <u>111,171</u> |
| | | 1,692,734 |
| | | 2,361,436 |
| | | 262,218 |
| | | 15,877 |
| | | 84,364 |
| | | 44,062 |
| | | 549,475 |
| | | 13,449,893 |
| | | <u>767,667</u> |
| | | 17,534,992 |
| | | 727,007 |
| | | 9,588,118 |
| | | 4,631,191 |
| | | <u>2,781,438</u> |
| | | <u>17,727,754</u> |
| | | 35,262,746 |
| | | 676,850 |
| | | 60,757,508 |
| 1,400,273 | | 1,400,273 |
| | 3,333,160 | 23,479,132 |
| <u>\$ 1,400,273</u> | <u>\$ 3,333,160</u> | <u>\$ 85,636,913</u> |

SOUTH FEATHER WATER AND POWER AGENCY
 COMBINING SCHEDULE OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION

For the year ended December 31, 2016

| | General Fund | Legacy Projects | Joint Facilities |
|--|----------------------|---------------------|----------------------|
| OPERATING REVENUE | | | |
| Domestic water sales | \$ 2,051,320 | | |
| Irrigation water sales | 227,744 | | |
| Sale of electricity | 1,760,567 | | \$ 15,492,754 |
| Other services | 219,877 | | 373,619 |
| TOTAL OPERATING REVENUE | <u>4,259,508</u> | | <u>15,866,373</u> |
| OPERATING EXPENSES | | | |
| Source of supply | 13,582 | | |
| Water treatment | 1,157,375 | | |
| Environmental health and safety | 255,988 | | 254,162 |
| Transmission and distribution | 1,891,722 | | |
| Customer accounts | 603,770 | | |
| Plant operations | 853,992 | | 4,774,396 |
| General and administrative | 1,825,965 | | 1,779,875 |
| Other operating expenses | 57,031 | | |
| Depreciation | 1,155,786 | | 1,352,202 |
| TOTAL OPERATING EXPENSES | <u>7,815,211</u> | | <u>8,160,635</u> |
| NET INCOME (LOSS) FROM OPERATIONS | (3,555,703) | | 7,705,738 |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest and penalty income | (15,417) | \$ 220 | 156,622 |
| Property taxes | 531,696 | | |
| Insurance refund | | | 2,004 |
| Interest expense | (60,960) | | (114,072) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 455,319 | 220 | 44,554 |
| CAPITAL CONTRIBUTIONS | | | |
| Capital reimbursements | | 698,467 | |
| System capacity charges | 40 | | |
| TOTAL CAPITAL CONTRIBUTIONS | <u>40</u> | <u>698,467</u> | |
| INCOME (LOSS) BEFORE TRANSFERS | (3,100,344) | 698,687 | 7,750,292 |
| TRANSFERS | | | |
| Transfers in | 3,323,015 | | |
| Transfers out | | | (1,268,350) |
| TOTAL TRANSFERS | <u>3,323,015</u> | | <u>(1,268,350)</u> |
| CHANGE IN NET POSITION | 222,671 | 698,687 | 6,481,942 |
| Net position at beginning of year | 21,118,273 | 7,221,762 | 52,563,445 |
| NET POSITION AT END OF YEAR | <u>\$ 21,340,944</u> | <u>\$ 7,920,449</u> | <u>\$ 59,045,387</u> |

| M RTP System Capacity | Retiree Benefits | Debt Service | Total |
|-----------------------------|---------------------|-----------------|---------------|
| | | | \$ 2,051,320 |
| | | | 227,744 |
| | | | 17,253,321 |
| | | | 593,496 |
| | | | 20,125,881 |
| | | | 13,582 |
| | | | 1,157,375 |
| | | | 510,150 |
| | | | 1,891,722 |
| | | | 603,770 |
| | | | 5,628,388 |
| | | \$ 422,983 | 4,028,823 |
| | | | 57,031 |
| | | | 2,507,988 |
| | | 422,983 | 16,398,829 |
| | | (422,983) | 3,727,052 |
| \$ 17,117 | \$ 21,219 | 146 | 179,907 |
| | | | 531,696 |
| | | | 2,004 |
| | | (170,438) | (345,470) |
| 17,117 | 21,219 | (170,292) | 368,137 |
| | | | 698,467 |
| 63,925 | | | 63,965 |
| 63,925 | | | 762,432 |
| 81,042 | 21,219 | (593,275) | 4,857,621 |
| 5,954,000 | | | 9,277,015 |
| | | (8,008,665) | (9,277,015) |
| 5,954,000 | | (8,008,665) | |
| 6,035,042 | 21,219 | (8,601,940) | 4,857,621 |
| 1,400,273 | 3,333,160 | | 85,636,913 |
| \$ 7,435,315 | \$ 3,354,379 | \$ (8,601,940) | \$ 90,494,534 |

SOUTH FEATHER WATER AND POWER AGENCY
 COMBINING SCHEDULE OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION

For the year ended December 31, 2015

| | General Fund | Legacy Projects | Joint Facilities |
|---|----------------------|---------------------|----------------------|
| OPERATING REVENUE | | | |
| Domestic water sales | \$ 2,009,002 | | |
| Irrigation water sales | 242,306 | | |
| Sale of electricity | 1,263,159 | | \$ 11,278,062 |
| Other services | 259,104 | | 7,462,680 |
| TOTAL OPERATING REVENUE | <u>3,773,571</u> | | <u>18,740,742</u> |
| OPERATING EXPENSES | | | |
| Source of supply | 13,213 | | |
| Water treatment | 1,139,272 | | |
| Environmental health and safety | 277,851 | | 280,270 |
| Transmission and distribution | 1,855,041 | | |
| Customer accounts | 703,032 | | |
| Plant operations | 1,075,863 | | 4,728,899 |
| General and administrative | 1,577,862 | | 1,983,946 |
| Other operating expenses | 47,709 | | |
| Depreciation | 1,118,852 | | 1,353,110 |
| TOTAL OPERATING EXPENSES | <u>7,808,695</u> | | <u>8,346,225</u> |
| NET INCOME (LOSS) FROM OPERATIONS | (4,035,124) | | 10,394,517 |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest and penalty income | 4,809 | \$ 300 | 71,807 |
| Property taxes | 517,354 | | |
| Insurance refund | | | 10,858 |
| Gain (loss) on sale and disposition of capital assets | | | (40,361) |
| Miscellaneous non-operating revenue | | | |
| Interest expense | (80,267) | | (90,602) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 441,896 | 300 | (48,298) |
| CAPITAL CONTRIBUTIONS | | | |
| Capital reimbursements | | 5,570,770 | |
| System capacity charges | | | |
| TOTAL CAPITAL CONTRIBUTIONS | | <u>5,570,770</u> | |
| INCOME (LOSS) BEFORE TRANSFERS | (3,593,228) | 5,571,070 | 10,346,219 |
| TRANSFERS | | | |
| Transfers in | 1,781,104 | | |
| Transfers out | | | (1,253,685) |
| TOTAL TRANSFERS | <u>1,781,104</u> | | <u>(1,253,685)</u> |
| CHANGE IN NET POSITION | (1,812,124) | 5,571,070 | 9,092,534 |
| Net position at beginning of year | <u>22,930,397</u> | <u>1,650,692</u> | <u>43,470,911</u> |
| NET POSITION AT END OF YEAR | <u>\$ 21,118,273</u> | <u>\$ 7,221,762</u> | <u>\$ 52,563,445</u> |

| M RTP System Capacity | Retiree Benefits | Total |
|-----------------------------|---------------------|----------------------|
| | | \$ 2,009,002 |
| | | 242,306 |
| | | 12,541,221 |
| | | 7,721,784 |
| | | <u>22,514,313</u> |
| | | 13,213 |
| | | 1,139,272 |
| | | 558,121 |
| | | 1,855,041 |
| | | 703,032 |
| | | 5,804,762 |
| | | 3,561,808 |
| | | 47,709 |
| | | 2,471,962 |
| | | <u>16,154,920</u> |
| | | 6,359,393 |
| \$ 7,860 | \$ 15,387 | 100,163 |
| | | 517,354 |
| | | 10,858 |
| | | (40,361) |
| | | <u>(170,869)</u> |
| 7,860 | 15,387 | 417,145 |
| | | 5,570,770 |
| 31,051 | | 31,051 |
| <u>31,051</u> | | <u>5,601,821</u> |
| 38,911 | 15,387 | 12,378,359 |
| | | 1,781,104 |
| (527,419) | | <u>(1,781,104)</u> |
| (527,419) | | |
| (488,508) | 15,387 | 12,378,359 |
| <u>1,888,781</u> | <u>3,317,773</u> | <u>73,258,554</u> |
| <u>\$ 1,400,273</u> | <u>\$ 3,333,160</u> | <u>\$ 85,636,913</u> |



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

To the Board of Directors
South Feather Water and Power Agency
Oroville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Feather Water and Power Agency (the Agency) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated June 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
South Feather Water and Power Agency

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance.

Richardson & Company, LLP

June 13, 2017