SOUTH FEATHER WATER AND POWER AGENCY

AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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SOUTH FEATHER WATER AND POWER AGENCY

AUDITED FINANCIAL STATEMENTS

December 31, 2017

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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, 2017 and 2016, 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, 2017 and 2016 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.

Change in Accounting Principles

As discussed in Note P to the financial statements, in 2017 the Agency adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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, Schedule of Funding Progress for Other Post-Employment Benefits, and Schedule of Changes in the Agency's Total OPEB Liability and Related Ratios 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.

To the Board of Directors
South Feather Water and Power Agency

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2018, 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 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

July 17, 2018

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, 2017 net position of $86,799,345 is a decrease of $3,695,189 (4.08%) when compared with the December 31, 2016 net position of $90,494,534.

- The Agency's operating revenues increased by $1,070,822 or 5.32% from the prior year. An unusually wet 2016-17 winter increased income from the sale of electricity by $1,111,117 in 2017. The Agency's 2017 operating expenses increased by $5,590,493 or 34.09% in 2017 because of costs associated with repair of facilities damaged by the 2016-17 winter storms and the Oroville Dam spillway incident.

- The Agency’s capital contributions increased by $3,267,503 to the 2017 amount of $4,029,935 because of resumption of work on the Lost Creek Dam Crest Modification project and substantial progress on the Miners Ranch Water Treatment Plant Improvement project.

- Construction-in-Progress increased by $26,204,468 from last year to $54,693,982. 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 minimal and have been expensed.

- The total of the Agency’s long-term liabilities increased by $10,849,475 due to the recognition of pension liabilities, and other post-employment benefits (OPEB) in accordance with current accounting standards and accounting for a loan payable to PG&E for the Agency’s share of the Lost Creek Dam Crest Modification project. This increase reflects the implementation of GASB No. 75 related to OPEB.

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.

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 2017 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 - 43 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 plus deferred inflows by $86,799,345 as of December 31, 2017.

The largest portion of the Agency's net position (87.9%) 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. 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, 2017, December 31, 2016 and December 31, 2015.

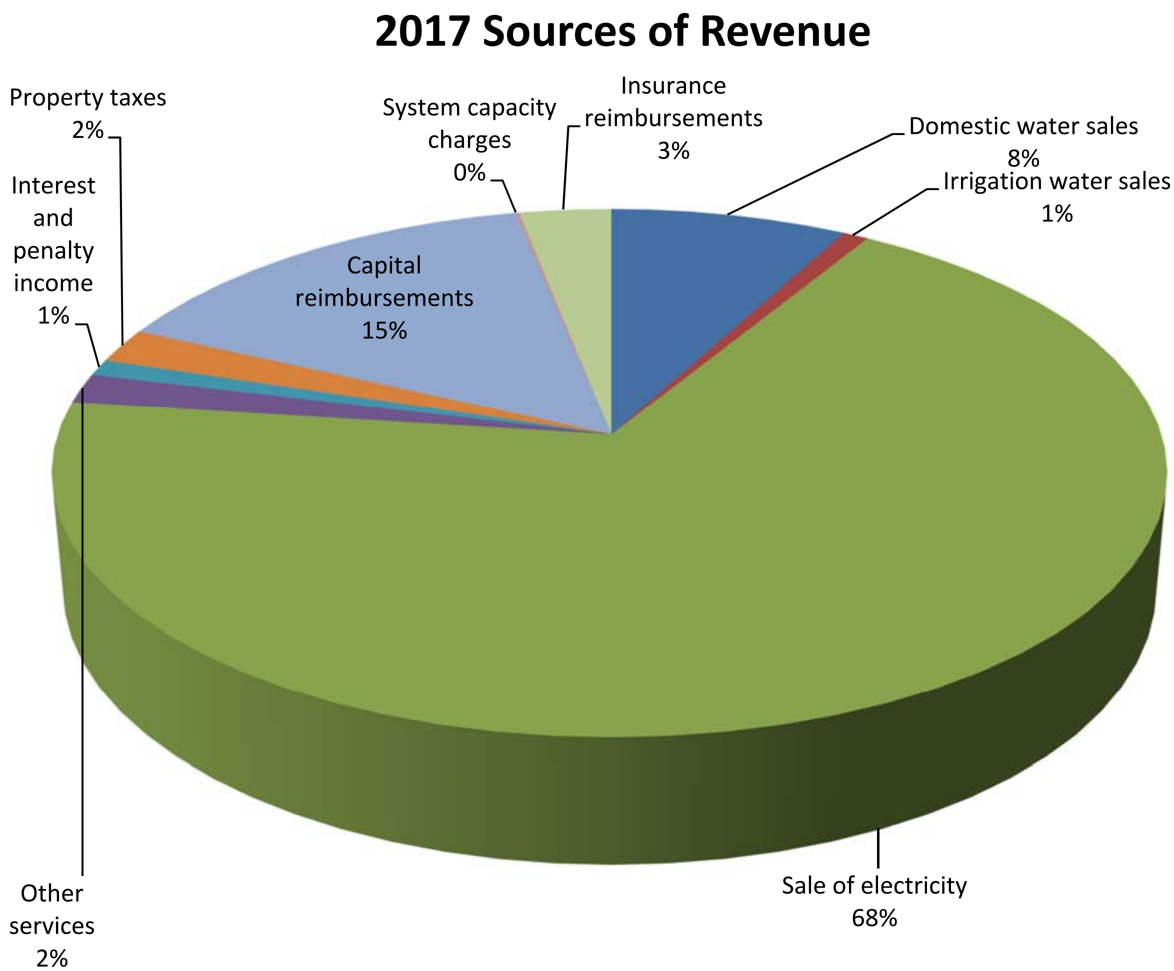
SOUTH FEATHER WATER & POWER AGENCY'S NET POSITION

	2017	2016	2015
Current and other assets	$ 31,426,988	$ 32,361,410	$ 35,220,784
Restricted assets	3,969,435	20,014,266	549,475
Net capital assets	103,440,881	77,865,438	70,663,623
TOTAL ASSETS	138,837,304	130,241,114	106,433,882
Deferred outflows of resources	2,441,322	2,514,429	1,692,734
TOTAL DEFERRED OUTFLOWS	2,441,322	2,514,429	1,692,734
Current liabilities	6,094,915	4,585,543	4,085,099
Long-term liabilities	48,081,558	37,232,083	17,727,754
TOTAL LIABILITIES	54,176,473	41,817,626	21,812,853
Deferred inflows of resources	302,808	443,383	676,850
Net investment in capital assets	76,266,518	69,324,139	60,757,508
Restricted	1,512,906	1,841,315	1,400,273
Unrestricted	9,019,921	19,689,080	23,479,132
TOTAL NET POSITION	$ 86,799,345	$ 90,854,534	$ 85,636,913

A portion of the Agency's net position, categorized as Restricted Net Position of $1,512,906 (1.7%) 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 $9,019,921 (10.4%) may be used to meet the Agency's ongoing obligations to the public and its customers. As of December 31, 2017, the Agency reported positive balances in all three categories of net position.

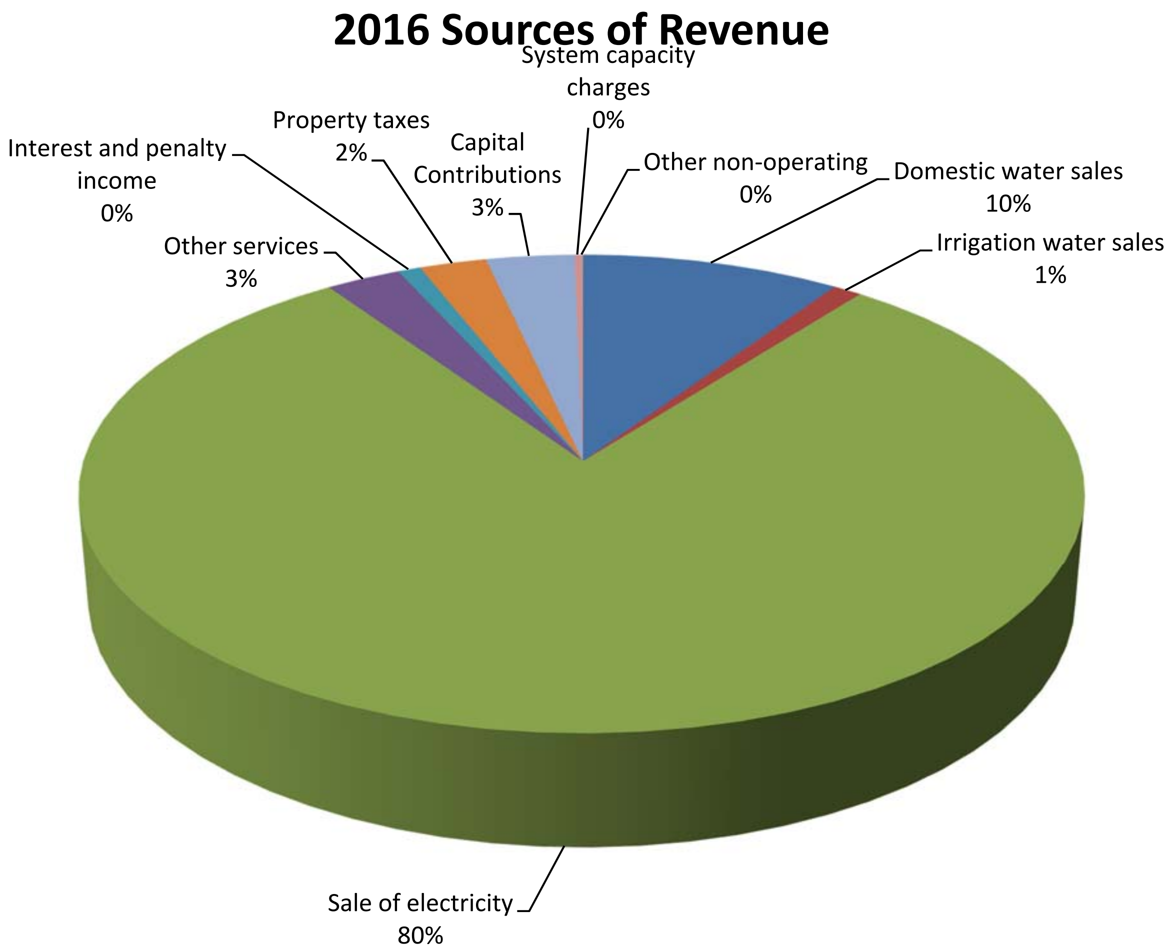
Analysis of the Agency's operations:

The following chart provides a summary of the Agency's Sources of Revenue for the year ended December 31, 2017.



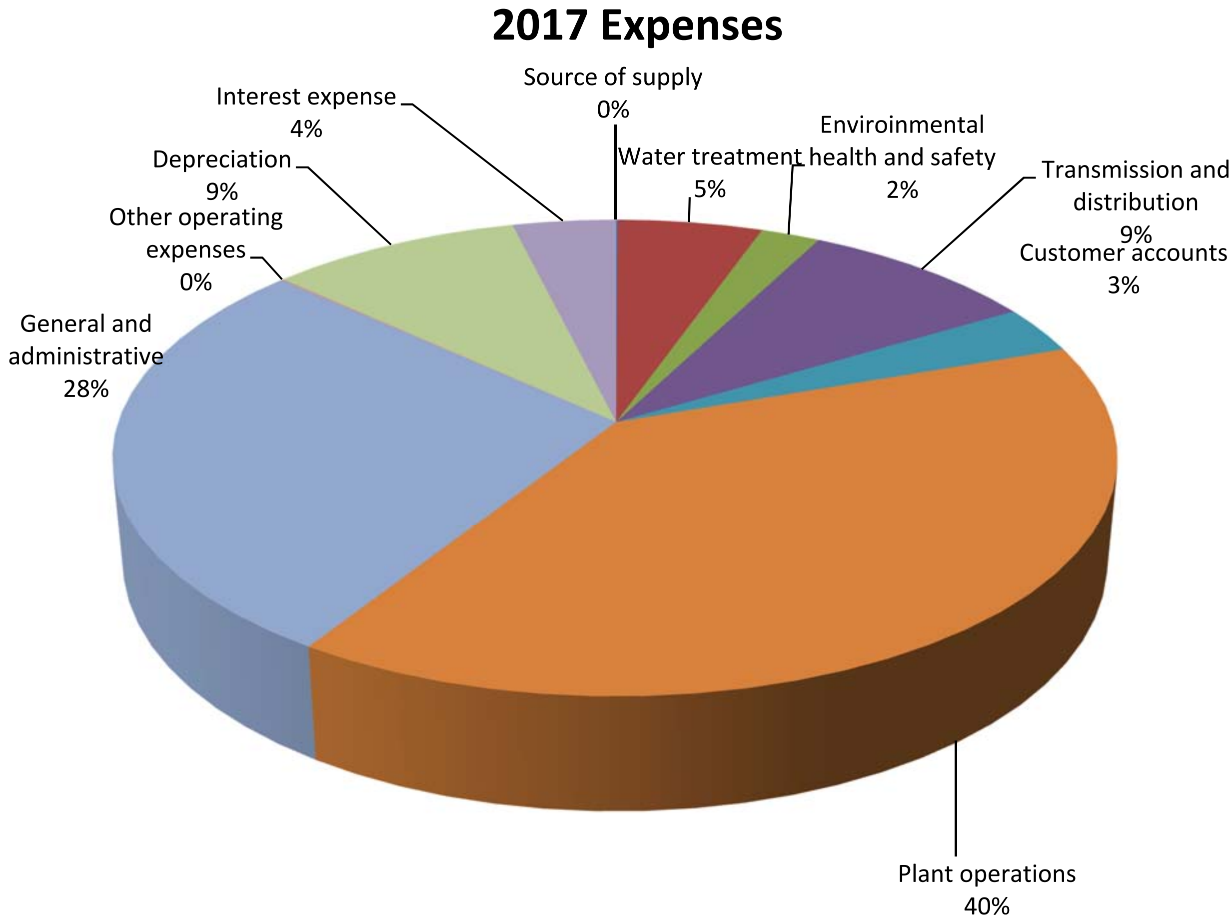
As the Sources of Revenue Chart above shows, $18,364,438, or 68% of the Agency's 2017 revenue came from the generation of hydroelectric power. An additional $2,344,429 or 9% came from Domestic and Irrigation Water Sales and $3,999,506 or 15% from Capital Reimbursements. The remaining $2,175,828 or 8% came from a variety of sources as shown above.

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



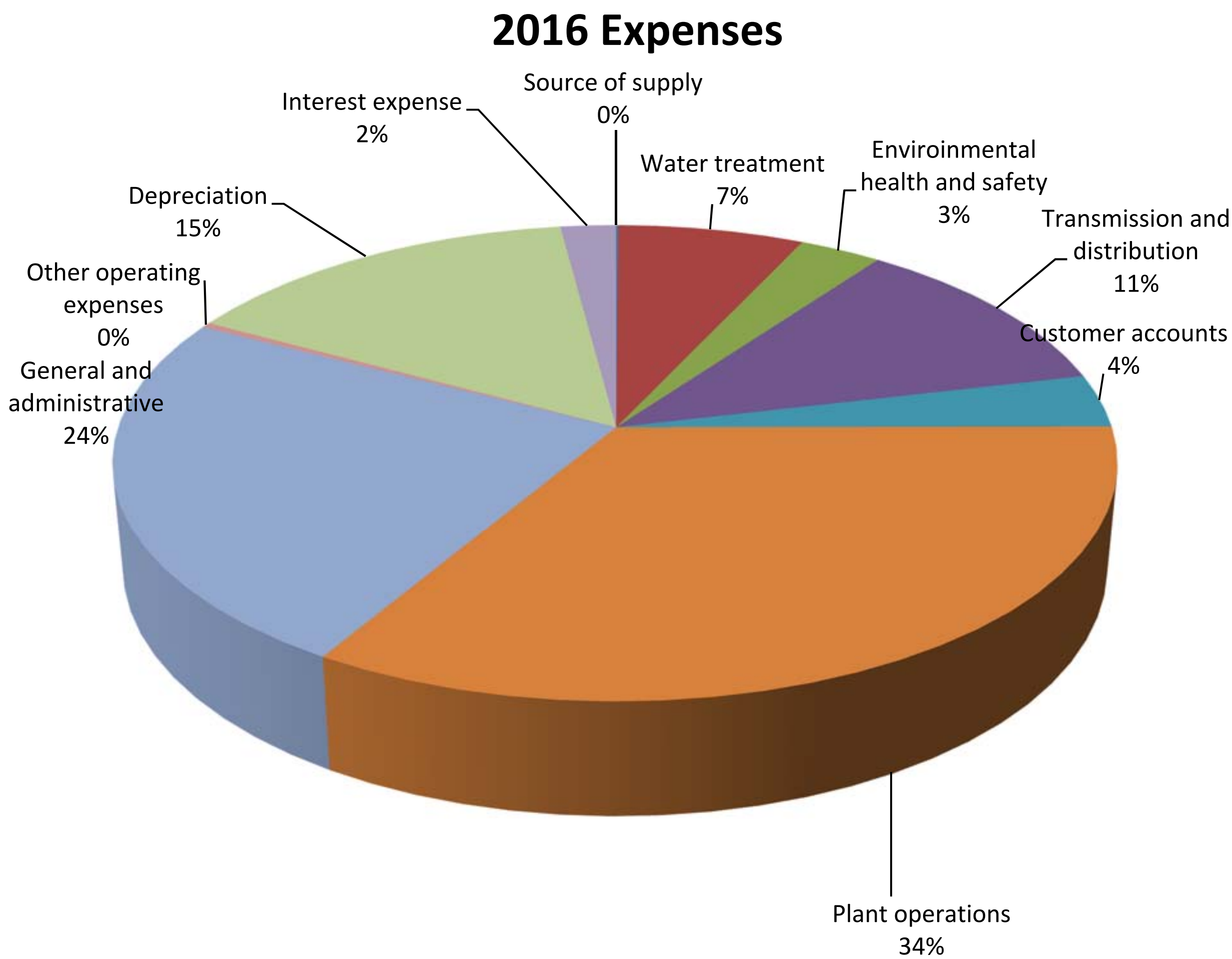
As the Sources of Revenue Chart above shows, $17,253,321, or 80% of the Agency's 2016 revenue came from the generation of hydroelectric power. An additional $2,279,064, or 11% came from Domestic and Irrigation Water Sales. The remaining $2,069,535 or 9% came from a variety of sources as shown above.

The following chart provides a summary of the Agency's Expenses for the year ended December 31, 2017.



The Expenses Chart above shows 2017 expenses for plant operations of $9,004,997 or 39%. 2017 depreciation and amortization expense was $2,138,830, or 9%. General and administrative expenses accounted for $6,326,785, or 28% of the total; transmission and distribution accounted for $2,017,961 or 9% of the total; and the remaining $3,379,436, or 15%, was made up of various other expenses as shown above.

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



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.

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The following table provides a summary of the Agency's operations for the years ended December 31, 2017, December 31, 2016 and December 31, 2015.

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

	2017	2016	2015
REVENUES			
Operating Revenues			
Domestic Water Sales	$ 2,116,331	$ 2,051,320	$ 2,009,002
Irrigation water sales	228,098	227,744	242,306
Sales of electricity	18,364,438	17,253,321	12,541,221
Other services	487,836	593,496	7,721,784
Total operating revenue	21,196,703	20,125,881	22,514,313
Non-operating revenues:			
Property taxes	568,094	531,696	517,354
Insurance refund	822,581	2,004	10,858
Gain or loss on sale of fixed assets	-	-	(40,361)
Investment earnings	266,888	179,907	100,163
Miscellaneous non-operating revenue	-		-
Total non-operating revenue	1,657,563	713,607	588,014
Capital contributions	4,029,935	762,432	5,601,821
TOTAL REVENUES	26,884,201	21,601,920	28,704,148
EXPENSES			
Operating	21,989,322	16,398,829	16,154,920
Non-operating	878,687	345,470	170,869
TOTAL EXPENSES	22,868,009	16,744,299	16,325,789
CHANGE IN NET POSITION	4,016,192	4,857,621	12,378,359
NET POSITION AT BEGINNING OF YEAR	90,494,534	85,636,913	73,258,554
Restatement	(7,711,381)		
NET POSITION END OF YEAR	$ 86,799,345	$ 90,494,534	$ 85,636,913

As the table above shows, the Agency received operating revenues of $21,196,703 or 79% of the 2017 total revenue, $20,125,881, or 93% of the 2016 total revenue and $22,514,313, or 78% of the 2015 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 $1,657,563, or 6%, $713,607 or 3%, and $588,014, or 2%, of total revenue in 2017, 2016 and 2015 respectively. General revenues come from property taxes, investment earnings, insurance refunds and any gains or losses on the sale or disposal of an asset.

Total revenue increased by $5,282,281, or 24%, between 2017 and 2016. The wet winter of 2016-2017, capital contributions and insurance refunds funded the increase. 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 $6,123,710, or 36.6%, in 2017 compared to 2016. The increase was caused by additional emergency repair work for damage caused by the 2016-2017 winter storms. Total expenses increased by $415,510, or 2.5%, in 2016 compared to 2015.

The 2017 net position at the beginning of the year is restated to account for the implementation of GASB Statement No. 75 regarding Other Post Employment Benefits (OPEB).

CAPITAL ASSETS

The South Feather Water & Power Agency's investment in capital assets (net of accumulated depreciation) amounts to $103,440,881 as of December 31, 2017. In 2017, the net capital assets made up 75% of the Agency's total assets.

The following table provides a detailed breakdown of net capital assets for 2017, 2016 and 2015.

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

	2017	2016	2015
Land, land rights and water rights	$ 2,138,103	$ 2,138,103	$ 2,138,103
Source of supply	101,197,995	100,200,879	99,709,259
Pumping plant	362,297	362,297	362,297
Miners Ranch Tratment Plan, tratment and transmission and distribution facilities	32,666,623	32,617,556	32,533,163
General plant and yard	11,924,855	11,521,273	10,947,847
Tailwater Depression System	124,445	124,445	124,445
Photovoltaic System - MRTP	2,142,701	2,142,701	2,142,701
Recreational facilities	963,302	948,385	948,385
Construction in progress	54,693,982	28,489,513	19,929,149
FERC relicensing in progress	5,716,306	5,716,306	5,716,306
Less: Accumulated Depreciation	(108,489,728)	(106,396,020)	(103,888,032)
TOTAL CAPITAL ASSETS	$ 103,440,881	$ 77,865,438	$ 70,663,623

Major capital asset events during 2017 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, 2017, 2016 and 2015, the Agency's debt consisted of the following:

OUTSTANDING FINANCING DEBT

	2017	2016	2015
Revenue bonds payable	$ -	$ -	$ 2,369,727
Loan payable to PG&E	2,240,010	112,614	7,536,388
Certificates of Participation	26,760,000	27,010,000	-
TOTAL FINANCING DEBT	$ 29,000,010	$ 27,122,614	$ 9,906,115

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.

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.

A 50 year 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. The Agency has commenced with planning for a new power purchase agreement with a beginning date of July 1, 2020.

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 have been and 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, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 27,435,486	$ 28,671,633
Accounts receivable	2,624,666	2,308,183
Accrued interest receivable	55,170	28,234
Property taxes receivable	281,006	259,856
Inventory	736,588	752,930
Prepaid expenses	285,137	326,457
Loans receivable	8,935	14,117
TOTAL CURRENT ASSETS	31,426,988	32,361,410
RESTRICTED ASSETS		
Cash with fiscal agents for capital projects	2,745,236	19,085,608
Cash with fiscal agents for contract retentions	1,224,199	928,658
TOTAL RESTRICTED ASSETS	3,969,435	20,014,266
CAPITAL ASSETS		
Not being depreciated	62,548,391	36,343,923
Being depreciated	149,382,218	147,917,535
Less: accumulated depreciation	(108,489,728)	(106,396,020)
TOTAL CAPITAL ASSETS, NET	103,440,881	77,865,438
TOTAL ASSETS	138,837,304	130,241,114
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	2,355,327	2,415,846
Deferred loss on bond refunding	85,995	98,583
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,441,322	2,514,429

SOUTH FEATHER WATER AND POWER AGENCY

STATEMENTS OF NET POSITION (Continued)

December 31, 2017 and 2016

	2017	2016
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 2,635,987	$ 2,325,411
Accrued payroll	258,109	277,987
Accrued interest payable	218,369	173,256
Deposits	231,309	147,972
Retainage payable	1,751,473	1,001,742
Other payables	30,991	33,351
Current portion of long-term liabilities	968,677	625,824
TOTAL CURRENT LIABILITIES	6,094,915	4,585,543
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	28,917,400	27,376,907
Compensated absences, net of current portion	811,867	762,764
Net OPEB obligation	13,604,233	5,230,136
Net pension liability	4,748,058	3,862,276
TOTAL LONG-TERM LIABILITIES	48,081,558	37,232,083
TOTAL LIABILITIES	54,176,473	41,817,626
DEFERRED INFLOWS OF RESOURCES		
Pensions	302,808	443,383
NET POSITION		
Net investment in capital assets	76,266,518	69,324,139
Restricted for capacity expansion	1,512,906	1,481,315
Unrestricted	9,019,921	19,689,080
TOTAL NET POSITION	$ 86,799,345	$ 90,494,534

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, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Domestic water sales	$ 2,116,331	$ 2,051,320
Irrigation water sales	228,098	227,744
Sale of electricity	18,364,438	17,253,321
Other services	487,836	593,496
TOTAL OPERATING REVENUES	21,196,703	20,125,881
OPERATING EXPENSES		
Source of supply	13,852	13,582
Water treatment	1,229,143	1,157,375
Environmental health and safety	503,288	510,150
Transmission and distribution	2,017,961	1,891,722
Customer accounts	734,957	603,770
Plant operations	9,004,997	5,628,388
General and administrative	6,326,785	4,028,823
Other operating expenses	19,509	57,031
Depreciation	2,138,830	2,507,988
TOTAL OPERATING EXPENSES	21,989,322	16,398,829
NET (LOSS) INCOME FROM OPERATIONS	(792,619)	3,727,052
NON-OPERATING REVENUE (EXPENSES)		
Interest and penalty income	266,888	179,907
Property taxes	568,094	531,696
Insurance reimbursements	822,581	2,004
Interest expense	(878,687)	(345,470)
TOTAL NON-OPERATING REVENUES (EXPENSES)	778,876	368,137
CAPITAL CONTRIBUTIONS		
Capital reimbursements	3,999,506	698,467
System capacity charges	30,429	63,965
TOTAL CAPITAL CONTRIBUTIONS	4,029,935	762,432
CHANGE IN NET POSITION	4,016,192	4,857,621
Net position at beginning of year - as previously reported	90,494,534	85,636,913
Restatement for change in accounting principles - Note P	(7,711,381)	
Net position, beginning of year - as restated	82,783,153	85,636,913
NET POSITION AT END OF YEAR	$ 86,799,345	$ 90,494,534

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 20,963,557	$ 22,584,480
Cash paid to suppliers for goods and services	(9,820,110)	(4,798,425)
Cash paid to employees for services	(8,523,203)	(8,474,109)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,620,244	9,311,946
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	546,944	530,450
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	546,944	530,450
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital reimbursements received	3,999,506	698,467
System capacity charges received	30,429	63,965
Acquisition of capital assets	(26,580,141)	(9,257,536)
Proceeds from insurance refund	822,581	2,004
Proceeds from loans payable	6,019,020	28,678,881
Payments on bonds and loans payable	(4,141,624)	(10,955,272)
Interest paid	(837,889)	(178,320)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(20,688,118)	9,052,189
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	239,952	163,188
NET CASH PROVIDED BY INVESTING ACTIVITIES	239,952	163,188
NET (DECREASE) INCREASE IN CASH	(17,280,978)	19,057,773
Cash and cash equivalents at beginning of year	48,685,899	29,628,126
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 31,404,921	$ 48,685,899
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and investments	$ 27,435,486	$ 28,671,633
Cash with fiscal agents	3,969,435	$ 20,014,266
TOTAL CASH AND CASH EQUIVALENTS	$ 31,404,921	$ 48,685,899

(Continued)

SOUTH FEATHER WATER AND POWER AGENCY

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2017 and 2016

	2017	2016
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	$ (792,619)	$ 3,727,052
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,138,830	2,507,988
Changes in operating assets and liabilities:		
Accounts receivable	(316,483)	2,394,991
Inventory	16,342	53,016
Prepaid expenses	41,320	29,369
Loans receivable	5,182	(7,055)
Accounts payable	(73,825)	(36,025)
Accrued payroll	(19,878)	15,769
Deposits	83,337	63,608
Other payables	(2,360)	(10,711)
Compensated absences	71,956	(38,089)
OPEB obligation	662,716	598,945
Net pension liability	885,782	1,080,838
Deferred outflows related to pensions	60,519	(834,283)
Deferred inflows related to pensions	(140,575)	(233,467)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,620,244	$ 9,311,946

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

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, now known as the South Feather Water and Power Agency 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.

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."

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, 2017 and 2016.

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

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.

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.

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

New Pronouncements: In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset (example is decommissioning a water treatment plant). A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. The requirements of this Statement are effective for periods beginning after June 15, 2018.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Topics that may be applicable include criteria for an enterprise fund to blend a component unit, measuring certain money market investments at amortized cost, timing of pension and OPEB liabilities and expenditures under the current financial resources measurement focus, presenting payroll related measures in RSI for OPEB plans, classifying employer paid member contributions for OPEB plans, accounting and financial reporting for multiple-employer defined benefit OPEB Plans. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves

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

accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 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:

	2017	2016
Cash and investments	$ 27,435,486	$ 28,671,633
Restricted cash with fiscal agents	3,969,435	20,014,266
Total cash and investments	$ 31,404,921	$ 48,685,899

Cash and cash equivalents were comprised of the following:

	2017	2016
Cash on hand	$ 950	$ 950
Deposits with financial institutions	3,103,699	2,743,378
Total cash	3,104,649	2,744,328
Money market mutual funds	4,548,694	20,396,818
Local Agency Investment Fund	15,893,512	18,394,789
Negotiable certificates of deposit	6,667,769	6,067,444
U.S. government agency securities	1,190,297	1,082,520
Total investments	28,300,272	45,941,571
Total cash and investments	$ 31,404,921	$ 48,685,899

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.

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, 2017 and 2016:

		Remaining Maturity		
	Credit Rating	12 months or less	1-5 years	Fair Value
December 31, 2017				
Money market mutual funds	Not Rated	$ 4,548,694		$ 4,548,694
Local Agency Investment Funds (LAIF)	Not Rated	15,893,512		15,893,512
Negotiable certificates of deposits	Not Rated	2,909,725	$ 3,758,044	6,667,769
U.S. government agency securities	AAA		1,190,297	1,190,297
		$ 23,351,931	$ 4,948,341	$ 28,300,272

		Remaining Maturity		
	Credit Rating	12 months or less	1-5 years	Fair Value
December 31, 2016				
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
		$ 41,279,668	$ 4,661,903	$ 45,941,571

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.

The Agency has the following recurring fair value measurements as of December 31, 2017:

		Fair Value Measurements Using		
	Total	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	$ 4,548,694		$ 4,548,694	
Negotiable Certificates of Deposit	6,667,769		6,667,769	
U.S. Government Agency Obligations	1,190,297		1,190,297	
Total investments by fair value level	12,406,760	-	$ 12,406,760	-
Investments measured at net asset value				
California Local Agency Investment Fund	15,893,512			
	$ 28,300,272			

NOTE B – CASH AND INVESTMENTS (Continued)

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, 2017 and 2016 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.

As of December 31, 2017 and 2016, the deposits with financial institutions, in excess of the federal depository insurance limits, were collateralized as required by law. As of December 31, 2017, the carrying amount of the Agency's bank deposits totaled $3,103,699 and the bank balances totaled $3,930,303. The differences between the carrying amounts and the bank totals are due to the normal deposits in transit and outstanding checks. At December 31, 2017, there was an uninsured balance for the Agency of $2,782,533.

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 $74,320,250,742, managed by the State Treasurer. Of that amount, 3.59% 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.

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance at January 1, 2017	Additions	Disposals	Transfers	Balance at December 31, 2017
Capital assets, not being depreciated:					
Land, land rights and water rights	$ 2,138,103				$ 2,138,103
Construction in progress	28,489,514	$ 27,393,516		$(1,189,048)	54,693,982
FERC relicensing in progress	5,716,306				5,716,306
Total capital assets, not being depreciated	36,343,923	27,393,516		(1,189,048)	62,548,391
Capital assets, being depreciated:					
Source of supply	100,200,879	12,006		985,110	101,197,995
Pumping plant	362,297				362,297
Miners Ranch Treatment Plant, treatment and transmissions and distribution facilities	32,617,556			49,067	32,666,623
General plant and yard	11,521,272	293,834	$ (45,122)	154,871	11,924,855
Tail water depression system	124,445				124,445
Photovoltaic system	2,142,701				2,142,701
Recreational facilities	948,385	14,917			963,302
Total capital assets being depreciated	147,917,535	320,757	(45,122)	1,189,048	149,382,218
Less: accumulated depreciation:					
Source of supply	(79,013,361)	(926,888)			(79,940,249)
Pumping plant	(316,556)	(4,255)			(320,811)
Miners Ranch Treatment Plant, treatment and transmissions and distribution facilities	(18,912,898)	(611,701)			(19,524,599)
General plant and yard	(6,494,717)	(510,156)	45,122		(6,959,751)
Tail water depression system	(124,445)				(124,445)
Photovoltaic system	(672,562)	(53,568)			(726,130)
Recreational facilities	(861,481)	(32,262)			(893,743)
Total accumulated depreciation	(106,396,020)	(2,138,830)	45,122		(108,489,728)
Total capital assets being depreciated, net	41,521,515	(1,818,073)		1,189,048	40,892,490
CAPITAL ASSETS, NET	$ 77,865,438	$ 25,575,443	$ -	$ -	$ 103,440,881

Depreciation expense for the year ended December 31, 2017 totaled $2,138,830.

NOTE C – CAPITAL ASSETS (Continued)

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	$ 9,176,015		$ (615,650)	28,489,514
FERC relicensing in progress	5,716,306				5,716,306
Total capital assets, not being depreciated	27,783,558	9,176,015		(615,650)	36,343,923
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	528,790		44,635	11,521,272
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	146,768,097	533,788		615,650	147,917,535
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	(103,888,032)	(2,507,988)			(106,396,020)
Total capital assets being depreciated, net	42,880,065	(1,974,200)		615,650	41,521,515
CAPITAL ASSETS, NET	$ 70,663,623	$ 7,201,815	$ -	$ -	$ 77,865,438

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

NOTE D – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended December 31, 2017:

	Restated January 1, 2017	Additions	Reductions	December 31, 2017	Due Within One Year
2016 Certificates of Particpation	$ 27,010,000		$ (250,000)	$ 26,760,000	$ 570,000
Loan Payable	112,614	$ 6,019,020	(3,891,624)	2,240,010	
Total	27,122,614	6,019,020	(4,141,624)	29,000,010	570,000
Unamortized premiums	504,293		(16,903)	487,390	
Total Debt and Loans	27,626,907	6,019,020	(4,158,527)	29,487,400	570,000
Compensated absences	1,138,588	398,677	(326,721)	1,210,544	398,677
Other post-employment benefits	12,941,517	961,345	(298,629)	13,604,233	
Net pension liability	3,862,276	885,782		4,748,058	
Total Long-Term Liabilities	$ 45,569,288	$ 8,264,824	$ (4,783,877)	$ 49,050,235	$ 968,677

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 Particpation		$ 27,010,000		$ 27,010,000	$ 250,000
Loan Payable	7,536,388	1,161,771	(8,585,545)	112,614	
Total Long-Term Debt	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

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

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 $570,000 to $1,395,000, are due on April 1 through April 1, 2046 and semi-annual interest payments ranging from $22,669 to $436,738 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, 2017:

Year ended December 31,	Principal	Interest	Totals
2018	$ 570,000	$ 873,475	$ 1,443,475
2019	580,000	862,075	1,442,075
2020	600,000	844,675	1,444,675
2021	615,000	826,675	1,441,675
2022	635,000	808,225	1,443,225
2023-2027	3,495,000	3,722,125	7,217,125
2028-2032	4,220,000	2,997,375	7,217,375
2033-2037	4,945,000	2,270,775	7,215,775
2038-2042	5,770,000	1,440,888	7,210,888
2043-2046	5,330,000	439,888	5,769,888
Total	$ 26,760,000	$ 15,086,176	$ 41,846,176

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 March 31, 2019. As of December 31, 2017 and 2016, the amount due to PG&E including interest totaled $2,251,494 and $112,614, 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 $41,846,176 at December 31, 2017.

Total principal and interest paid on all debt payable from net revenues was $1,079,612 and $379,392 and the total water system net revenues were $3,003,774 and $6,948,647 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the District's net revenues were 278% and 1,832% of debt service payments, respectively.

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:

	2017	2016
Retiree benefits	$ 3,382,097	$ 3,354,379
Undesignated	5,637,824	16,334,701
Total Unrestricted Net Position	$ 9,019,921	$ 19,689,080

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

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, 2017 and 2016, 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, 2017	11.995%	6.555%
July 1 to December 31, 2017	12.036%	6.533%
January 1 to June 30, 2016	11.065%	6.237%
July 1 to December 31, 2016	11.995%	6.555%
Required employee contribution rates:		
2017	8.000%	6.250%
2016	8.000%	6.250%

In addition to the contribution rates above, the Agency was required to make payments of $166,144 and $130,207 toward its unfunded actuarial liability during the years ended December 31, 2017 and 2016, 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.

NOTE F – PENSION PLANS (Continued)

For the years ended December 31, 2017 and 2016, the contractually required contributions made to the Plans were $652,362 and $596,806.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of December 31, 2017 and 2016, the Agency reported a net pension liability for its proportionate share of the net pension liability of the Plan of $4,748,058 and $3,862,276, 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, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2016 and 2015 rolled forward to June 30, 2017 and 2016, 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, 2017 and 2016 was as follows:

Proportion - June 30, 2016	0.11118%
Proportion - June 30, 2017	0.12045%
Change - Increase (Decrease)	0.00926%
Proportion - June 30, 2015	0.10138%
Proportion - June 30, 2016	0.11118%
Change - Increase (Decrease)	0.00979%

For the years ended December 31, 2017 and 2016, the Agency recognized pension expense of $1,776,209 and $741,883, 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:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 405,275		$ 465,128	
Differences between actual and expected experience	8,460	$ (121,221)	24,804	$ (5,683)
Changes in assumptions	1,049,822	(80,050)		(234,669)
Differences between the employer's contribution and the employer's proportionate share of contributions	78,380	(329)	91,721	(167,320)
Change in employer's proportion	575,964	(101,208)	612,820	(35,711)
Net differences between projected and actual earnings on plan investments	237,426		1,221,373	
Total	$ 2,355,327	$ (302,808)	$ 2,415,846	$ (443,383)

NOTE F – PENSION PLANS (Continued)

The $405,275 and $465,128 reported as deferred outflows of resources related to contributions subsequent to the measurement date at December 31, 2017 and 2016 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	
2018	$ 594,950
2019	715,545
2020	477,715
2021	(140,966)
	$ 1,647,244

Actuarial Assumptions: The total pension liabilities in the June 30, 2017 and 2016 actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

	2017	2016
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	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	7.15%(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 7.15% and 7.65% for the June 30, 2017 and 2016 valuations, respectively. 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.

NOTE F – PENSION PLANS (Continued)

Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 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.

In Fiscal Year 2016-2017, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption change.

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.

	2017			2016		
Asset Class	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	47.0%	4.90%	5.38%	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.80%	2.27%	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.60%	1.39%	6.0%	0.45%	3.36%
Private Equity	12.0%	6.60%	6.63%	10.0%	6.83%	6.95%
Real Estate	11.0%	2.80%	5.21%	10.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	3.90%	5.36%	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.40)%	(0.90)%	1.0%	(0.55)%	(1.05)%
Total	100.0%			100.0%		

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

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

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:

	2017	2016
1% Decrease	6.15%	6.65%
Net Pension Liability	$ 8,208,572	$ 6,755,431
Current Discount Rate	7.15%	7.65%
Net Pension Liability	$ 4,748,058	$ 3,862,276
1% Increase	8.15%	8.65%
Net Pension Liability	$ 1,881,998	$ 1,471,227

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, 2017 and 2016, the Agency reported payables for the outstanding amount of contributions payable to the pension plan of $24,568 and $23,941, respectively.

NOTE G – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Agency implemented GASB Statement No. 75 as of January 1, 2017. As a result, GASB Statement No. 45 was effective for 2016 and GASB Statement No. 75 was effective for 2017. The following disclosures are required under GASB Statement No. 45.

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, PERSChoice 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 Joint Power Insurance Authority (ACWA-JPIA).

For the year ended December 31, 2016, 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 0.33% 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 had $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.

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

Annual OPEB Cost and Net OPEB Obligation: The Agency's annual OPEB cost for 2016 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
Annual required contribution	
Service cost at year-end	$ 429,570
30-year amortization of funded liability	527,565
Total annual required contribution	957,135
Interest on net OPEB obligation	185,248
Adjustment on net OPEB obligation	(257,521)
Annual OPEB cost	884,862
Employer contibutions	(285,917)
Net change in OPEB obligation	598,945
Net OPEB obligation, beginning of year	4,631,191
Net OPEB obligation, end of year	$ 5,230,136

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 prepared under GASB 45), 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%

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.

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 2014 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.

The following disclosures for 2017 are required under GASB 75.

Plan Description: The Agency’s defined benefit OPEB plan, South Feather Water and Power Agency Retiree Benefits Plan (SFWPARB Plan), provides OPEB benefit for all permanent full-time employees of the Agency. Benefits are set by the Memoranda of Understandings with the applicable employee bargaining units and may be amended by agreement between the Agency and the bargaining units. SFWPARB Plan is a single employer defined benefit OPEB plan administered by the Agency. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75. As of December 31, 2017, the Agency has $3,382,097 designated in its Retiree Benefits Fund for future OPEB obligations. Since these funds are not held in an irrevocable trust to provide benefits to plan members, these funds do not meet the criteria in paragraph 4 of Statement 75.

Benefits Provided: SFWPARB Plan provides healthcare and insurance benefits all permanent full-time employees who retire directly from the Agency, at a minimum age of 55, with a minimum of ten years of service Eligible employees’ surviving spouses are also eligible for benefits. The Agency participates in

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

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, PERSChoice PPO, or PERSSelect PPO. In addition, dental and vision insurance are provided to employees, spouses, and, through the Association of California Water Agencies Joint Power Insurance Authority (ACWA-JPIA). The contribution is based on the 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.

Employees Covered by Benefit Terms: As of the December 31, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the SFWPARB Plan:

Inactive employees or beneficiaries currently receiving benefit payments	31
Active employees	59
Total	90

Total OPEB Liability: The Agency's total OPEB liability was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date. This liability was rolled back to determine the December 31, 2016 total OPEB liability.

Actuarial Assumptions and Other Inputs: The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial assumptions:	
Inflation	3.50%
Salary increases	3.00%
Discount rate	3.16%
Mortality rate	RP-2014 Mortality
Pre-retirement turnover	Crocker-Sarason Table T-5 less mortality, reduced by 20% for all ages
Healthcare trend rate	Medical 6% for 2017, 5% for 2018 and after Dental and Vision 4%

The discount rate was based on the Standard and Poor’s Municipal Bond 20 Year High Grade Index at December 30, 2017.

Mortality information was based on the Society of Actuaries (SOA) RP-2014 Mortality Tables based on the results from of an actuarial experience study for the period 2004 to 2008. The experience study report may be accessed on the SOA website at https://www.soa.org/research/topics/pension-exp-study-list/.

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

Changes in the Total OPEB Liability

	Increase (Decrease) Total OPEB Liability
Balance at January 1, 2017	$ 12,941,517
Changes in the year:	
Service cost	557,075
Interest	404,270
Benefit payments	(298,629)
Net changes	662,716
Balance at December 31, 2017	$ 13,604,233

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate: The following presents the total OPEB liability of the Agency, as well as what the Agency's total OPEB 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 discount rate:

	1% Decrease 2.16%	Current Discount Rate 3.16%	1% Increase 4.16%
Net OPEB liability	$ 15,548,144	$ 13,604,233	$ 11,896,228

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the total OPEB liability of the Agency, as well as what the Agency's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease (5% Medical decreasing to 4%)	Current Healthcare Cost Trend Rates (6% Medical decreasing to 5%)	1% Increase (7% Medical decreasing to 6%)
Net OPEB liability	$ 11,881,552	$ 13,604,233	$ 15,756,277

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended December 31, 2017, the Agency recognized OPEB expense of $961,345. At December 31, 2017 and 2016, the Agency had no deferred outflows or inflows related to the OPEB plan.

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 Granite Construction Company on May 12, 2017 to complete the project at a cost not to exceed $20,444,839, of which $7,824,046 was expended as of December 31, 2017. The total project cost is estimated to be approximately $40,000,000.

The Agency entered into a construction contract for the Miners Ranch Water Treatment Improvement Project in the amount of $25,533,622, of which $23,743,624 has been expended on the project through December 31, 2017.

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 2017 and 2016, the Agency received 80% and 83%, 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.

NOTE J – RISK MANAGEMENT (Continued)

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	$ 55,000,000	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.

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 an $18,000,000 contingency reserve. Following the satisfaction of the obligations, then the remaining funds, or net power revenues, are distributed equally between the Agency and NYWD. The net power revenue is also adjusted by loans payable and unexpected expenditures. There was a distribution of net power revenue for the year ended December 31, 2017 of $4,429,288. Due to the uncertainty of the amount, and if a distribution will be made, the Agency does not accrue this amount at year end.

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. Initial 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, 2017 amounted to

NOTE M – RELICENSING (Continued)

$5,176,306. Current costs in the relicensing process are minimal and are being expensed. 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.

NOTE N – STORM DAMAGE

During January and February 2017, the Agency suffered significant storm damage that impacted a number of its facilities, canals and roads. The Agency has applied for Federal Emergency Management Agency (FEMA) reimbursements for the storm damage expenses through the California Office of Emergency Services (CalOES) totaling $2.5 million. As of December 31, 2017, projects totaling $35,000 have been awarded reimbursement. The Agency has not accrued a receivable for any additional reimbursements of grant funded expenses incurred because management does not believe the awards have received final approval from the granting agencies and the award may not actually be realized.

In addition, as a result of the storms at the beginning of 2017 and the failure of the Oroville Dam spillways, the Agency's Kelly Ridge Powerhouse was flooded and suffered severe damage. The Agency so far has received reimbursements totaling $800,000 from their insurance company for the cost of repairs. The Agency has included the $250,000 insurance deductible as part of their claim with FEMA.

NOTE O – SUBSEQUENT EVENTS

The Agency terminated a construction contract for the Lost Creek Dam Improvement Project in 2017. The contractor filed a lawsuit against the Agency alleging they were not compensated for all the work performed under the contract. In February 2018, the Agency entered into settlement agreements with the contractor. The Agency agreed to pay $295,000 for work performed under the contract and to dismiss the lawsuit filed against the Agency. The contractor filed a separate lawsuit for additional work performed under the contract totaling $6 million. The Agency believes most of the claims are without merit and plans to contest this lawsuit.

The Agency entered into a separate settlement agreement in February 2018 related to a dispute over the turbine shutoff valve at the Kelly Ridge Powerhouse. The valve was initially replaced in 2013 but did not operate properly and subsequently had to be reinstalled multiple times. The Agency filed a lawsuit against the construction contractor and the design engineer. An agreement was reached where the design engineer would pay the Agency $275,000 and the construction contractor would pay the Agency $150,000. The installed valve can be used by the Agency through December 31, 2019, at which time it must be returned to the contractor.

NOTE P – CHANGE IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2017, the Agency adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement requires the Agency recognize in its financial statements the total OPEB liability for the health benefits provided to retirees, since the Agency does not hold assets in an irrevocable trust for heath benefits. Due to the implementation of this Statement, total liabilities increased by $7,711,381 and total net position decreased by $7,711,381 as of January 1, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH FEATHER WATER AND POWER AGENCY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last 10 Years

	2017	2016	2015	2014
Proportion of the net pension liability	0.120450%	0.111181%	0.101384%	0.110077%
Proportionate share of the net pension liability	$ 4,748,058	$ 3,862,276	$ 2,781,438	$ 2,720,542
Covered - employee payroll - measurement period	$ 5,627,825	$ 5,570,519	$ 5,746,942	$ 5,118,332
Proportionate share of the net pension liability as a percentage of covered payroll	84.37%	69.33%	48.40%	53.15%
Plan fiduciary net position as a percentage of the total pension liability	81.13%	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, 2016 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: In 2017, the accounting discount rate was reduced fom 7.65% to 7.15%.

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN
Last 10 Years

	2017	2016	2015	2014
Contractually required contribution (actuarially determined)	$ 652,363	$ 596,806	$ 729,747	$ 431,342
Contributions in relation to the actuarially determined contributions	(652,363)	(596,806)	(729,747)	(431,342)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered - employee payroll - calendar year	$ 5,843,236	$ 5,374,903	$ 5,527,640	$ 5,382,338
Contributions as a percentage of covered - employee payroll	11.16%	11.10%	7.57%	8.01%
Valuation date:	June 30, 2015	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	12 years	13 years	14 years	15 years
Asset valuation method	5-year smoothed market			
Inflation	2.75%	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	50-67 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 (UNAUDITED)

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

December 31, 2016

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%

SOUTH FEATHER WATER AND POWER AGENCY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

For the measurement periods ended December 31

	2017
Total OPEB liability	
Service cost	$ 557,075
Interest	404,270
Benefit payments	(298,629)
Net change in total OPEB liability	662,716
Total OPEB liability - beginning	12,941,517
Total OPEB liability - ending	$ 13,604,233
Covered-employee payroll - measurement period	$ 5,843,236
Total OPEB liability as percentage of covered-employee payroll	232.82%

Notes to schedule:	
Valuation date	December 31, 2017
Measurement period - calendar year ended	December 31, 2017
Discount Rate	3.16%

Note: No assets are accumulated in a trust that meets the criteria in GASB Statement 75, paragraph 4, to pay related benefits.

Benefit changes. None since December 31, 2017.

Changes in assumptions. None since December 31, 2017.

Omitted years: GASB Statement No. 75 was implemented during the year ended December 31, 2017. No information was available prior to this date. Information will be added prospectively as it becomes available until 10 years are reported.

SUPPLEMENTARY INFORMATION

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DESCRIPTION OF COMBINING FUNDS

DECEMBER 31, 2017

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, 2017

	General Fund	Legacy Projects	Joint Facilities
ASSETS			
CURRENT ASSETS			
Cash and investments	$ 6,917,453	$ 437,727	$ 16,692,313
Accounts receivable	462,095	690,768	1,471,803
Accrued interest receivable	55,170		
Property taxes receivable	281,006		
Inventory	150,195		586,393
Prepaid expenses	186,986	3,600	94,551
Loans receivable	8,935		
Due from other funds			22,551,941
TOTAL CURRENT ASSETS	8,061,840	1,132,095	41,397,001
RESTRICTED ASSETS			
Cash with fiscal agents for capital projects			
Cash with fiscal agents for contract retentions	1,080,622	143,577	
TOTAL RESTRICTED ASSETS	1,080,622	143,577	
CAPITAL ASSETS			
Not being depreciated	24,811,173	30,193,710	7,543,508
Being depreciated	54,245,902		95,136,316
Less: accumulated depreciation	(32,838,224)		(75,651,504)
TOTAL CAPITAL ASSETS, NET	46,218,851	30,193,710	27,028,320
TOTAL ASSETS	55,361,313	31,469,382	68,425,321
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	1,274,366		1,080,961
Deferred loss on bond refunding	85,995		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,360,361		1,080,961
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	1,663,241	684,239	288,507
Accrued payroll	138,412	5,853	113,844
Accrued interest payable	1	(1)	
Deposits	228,739		2,570
Retainage payable	1,187,181	564,292	
Other payables	31,012	(21)	
Due to other funds	26,319,227	18,295,045	
Current portion of long-term liabilities	234,902		163,775
TOTAL CURRENT LIABILITIES	29,802,715	19,549,407	568,696
LONG-TERM LIABILITIES			
Compensated absences, net of current portion	383,297		428,570
Long-term debt, net of current portion			2,240,010
Net OPEB obligation	7,346,286		6,257,947
Net pension liability	2,516,470		2,231,588
TOTAL LONG-TERM LIABILITIES	10,246,053		11,158,115
TOTAL LIABILITIES	40,048,768	19,549,407	11,726,811
DEFERRED INFLOWS OF RESOURCES			
Pensions	160,488		142,320
NET POSITION			
Net investment in capital assets	21,716,697	29,772,995	24,776,826
Restricted for capacity expansion			
Unrestricted	(5,204,279)	(17,853,020)	32,860,325
TOTAL NET POSITION	$ 16,512,418	$ 11,919,975	$ 57,637,151

MRTP System Capacity	Retiree Benefits	Debt Service	Total
$ 55,833	$ 3,333,160	$ (1,000)	$ 27,435,486
			2,624,666
			55,170
			281,006
			736,588
			285,137
			8,935
8,618,073	48,937	13,395,321	44,614,272
8,673,906	3,382,097	13,394,321	76,041,260
		2,745,236	2,745,236
			1,224,199
		2,745,236	3,969,435
			62,548,391
			149,382,218
			(108,489,728)
			103,440,881
8,673,906	3,382,097	16,139,557	183,451,576
			2,355,327
			85,995
			2,441,322
			2,635,987
			258,109
		218,369	218,369
			231,309
			1,751,473
			30,991
			44,614,272
		570,000	968,677
		788,369	50,709,187
			811,867
		26,677,390	28,917,400
			13,604,233
			4,748,058
		26,677,390	48,081,558
		27,465,759	98,790,745
			302,808
			76,266,518
1,512,906			1,512,906
7,161,000	3,382,097	(11,326,202)	9,019,921
$ 8,673,906	$ 3,382,097	$(11,326,202)	$ 86,799,345

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	5,087,294	695,579	35,854,169
RESTRICTED ASSETS			
Cash with fiscal agents for capital projects			
Cash with fiscal agents for contract retentions	293,607	635,051	
TOTAL RESTRICTED ASSETS	293,607	635,051	
CAPITAL ASSETS			
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	30,741,138	19,684,212	27,440,088
TOTAL ASSETS	36,122,039	21,014,842	63,294,257
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	1,306,441		1,109,405
Deferred loss on bond refunding	98,583		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,405,024		1,109,405
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
Other payables	33,372	(21)	
Retainage payable	366,691	635,051	
Due to other funds	7,769,541	12,295,785	
Current portion of long-term liabilities	224,518		151,306
TOTAL CURRENT LIABILITIES	10,212,878	13,094,393	920,343
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	5,738,248		4,229,542
TOTAL LIABILITIES	15,951,126	13,094,393	5,149,885
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	$ 21,340,944	$ 7,920,449	$ 59,045,387

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	19,085,608
			928,658
		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
			33,351
			1,001,742
			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 REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the year ended December 31, 2017

	General Fund	Legacy Projects	Joint Facilities
OPERATING REVENUE			
Domestic water sales	$ 2,116,331		
Irrigation water sales	228,098		
Sale of electricity	2,053,932		$ 16,310,506
Other services	444,286		43,550
TOTAL OPERATING REVENUE	4,842,647		16,354,056
OPERATING EXPENSES			
Source of supply	13,852		
Water treatment	1,229,143		
Environmental health and safety	245,328		257,960
Transmission and distribution	2,017,961		
Customer accounts	734,957		
Plant operations	803,507		8,201,490
General and administrative	2,333,582		3,992,203
Other operating expenses	19,509		
Depreciation	1,144,887		993,943
TOTAL OPERATING EXPENSES	8,542,726		13,445,596
NET INCOME (LOSS) FROM OPERATIONS	(3,700,079)		2,908,460
NON-OPERATING REVENUES (EXPENSES)			
Interest and penalty income	46,690	$ 20	165,327
Property taxes	568,094		
Insurance refund			822,581
Interest expense	(12,588)		(8,278)
TOTAL NON-OPERATING REVENUES (EXPENSES)	602,196	20	979,630
CAPITAL CONTRIBUTIONS			
Capital reimbursements		3,999,506	
System capacity charges			
TOTAL CAPITAL CONTRIBUTIONS		3,999,506	
INCOME (LOSS) BEFORE TRANSFERS	(3,097,883)	3,999,526	3,888,090
TRANSFERS			
Transfers in	2,339,656		
Transfers out	(397,177)		(1,258,067)
TOTAL TRANSFERS	1,942,479		(1,258,067)
CHANGE IN NET POSITION	(1,155,404)	3,999,526	2,630,023
Net position at beginning of year - as previously reported	21,340,944	7,920,449	59,045,387
Restatement for change in accounting principles - Note P	(3,673,122)		(4,038,259)
Net position, beginning of year - as restated	17,667,822	7,920,449	55,007,128
NET POSITION AT END OF YEAR	$ 16,512,418	$ 11,919,975	$ 57,637,151

MRTP System Capacity	Retiree Benefits	Debt Service	Total
			$ 2,116,331
			228,098
			18,364,438
			487,836
			21,196,703
			13,852
			1,229,143
			503,288
			2,017,961
			734,957
			9,004,997
		$ 1,000	6,326,785
			19,509
			2,138,830
		1,000	21,989,322
		(1,000)	(792,619)
$ 1,162	$ 27,718	25,971	266,888
			568,094
			822,581
		(857,821)	(878,687)
1,162	27,718	(831,850)	778,876
			3,999,506
30,429			30,429
30,429			4,029,935
31,591	27,718	(832,850)	4,016,192
1,207,000		397,177	3,943,833
		(2,288,589)	(3,943,833)
1,207,000		(1,891,412)	
1,238,591	27,718	(2,724,262)	4,016,192
7,435,315	3,354,379	(8,601,940)	90,494,534
			(7,711,381)
7,435,315	3,354,379	(8,601,940)	82,783,153
$ 8,673,906	$ 3,382,097	$ (11,326,202)	$ 86,799,345

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	4,259,508		15,866,373
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	7,815,211		8,160,635
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	40	698,467	
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	3,323,015		(1,268,350)
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	$ 21,340,944	$ 7,920,449	$ 59,045,387

MRTP 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

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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, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated July 17, 2018.

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

July 17, 2018