SOUTH FEATHER WATER AND POWER AGENCY

AUDITED FINANCIAL STATEMENTS

December 31, 2019 and 2018

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SOUTH FEATHER WATER AND POWER AGENCY

AUDITED FINANCIAL STATEMENTS

December 31, 2019

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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 as of December 31, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

To the Board of Directors
South Feather Water and Power Agency

Opinion

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, 2019 and 2018, and the changes in financial position and cash flows thereof 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of the Proportionate Share of the Net Pension Liability, Schedule of Contributions to the Pension Plan and Schedule of Changes in the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2020, 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control

To the Board of Directors
South Feather Water and Power Agency

over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Richardson & Company, LLP

September 4, 2020

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 7,000 residential customers (domestic water) and 600 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, 2019 net position of $96,422,304 is an increase of $5,450,618 (5.99%) when compared with the December 31, 2018 net position of $90,971,686.

- The Agency's operating revenues increased by $6,860,414 or 37.93% from the prior year. Unusual hydropower generation pricing in February and March and significantly wetter than average winter storms provided increased revenue in 2019 from the sale of electricity. The Agency's 2019 operating expenses increased by $759,058 or 3.83% from 2018, reflective of general price increases.

- The Agency’s capital contributions decreased by $2,627,544 to the 2019 amount of $191,965, to be expected with the completion of the Lost Creek Dam Crest Modification project and the Miners Ranch Water Treatment Plant Improvement project in prior years.

- Construction-in-Progress increased by $363,307 from last year to $424,377. The projects in progress at December 31, 2019 included the Kelly Powerhouse turbine shut-off valve replacement and the Rockridge and Coventry Drive pipeline replacement.

- Relicensing costs accumulated through 2012 in the amount of $5,716,306 will be amortized over the life of the license beginning when the FERC license is issued. Costs incurred subsequent to 2012 have been expensed.

- The total of the Agency’s long-term liabilities increased by $407,756, a reasonable increase resulting from the annual calculation of the liabilities associated with pension and other post-employment benefits.

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 2019 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 - 42 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 of resources by $96,422,304 as of December 31, 2019.

The largest portion of the Agency's net position (84.5%) 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, 2019, December 31, 2018 and December 31, 2017.

SOUTH FEATHER WATER & POWER AGENCY'S NET POSITION

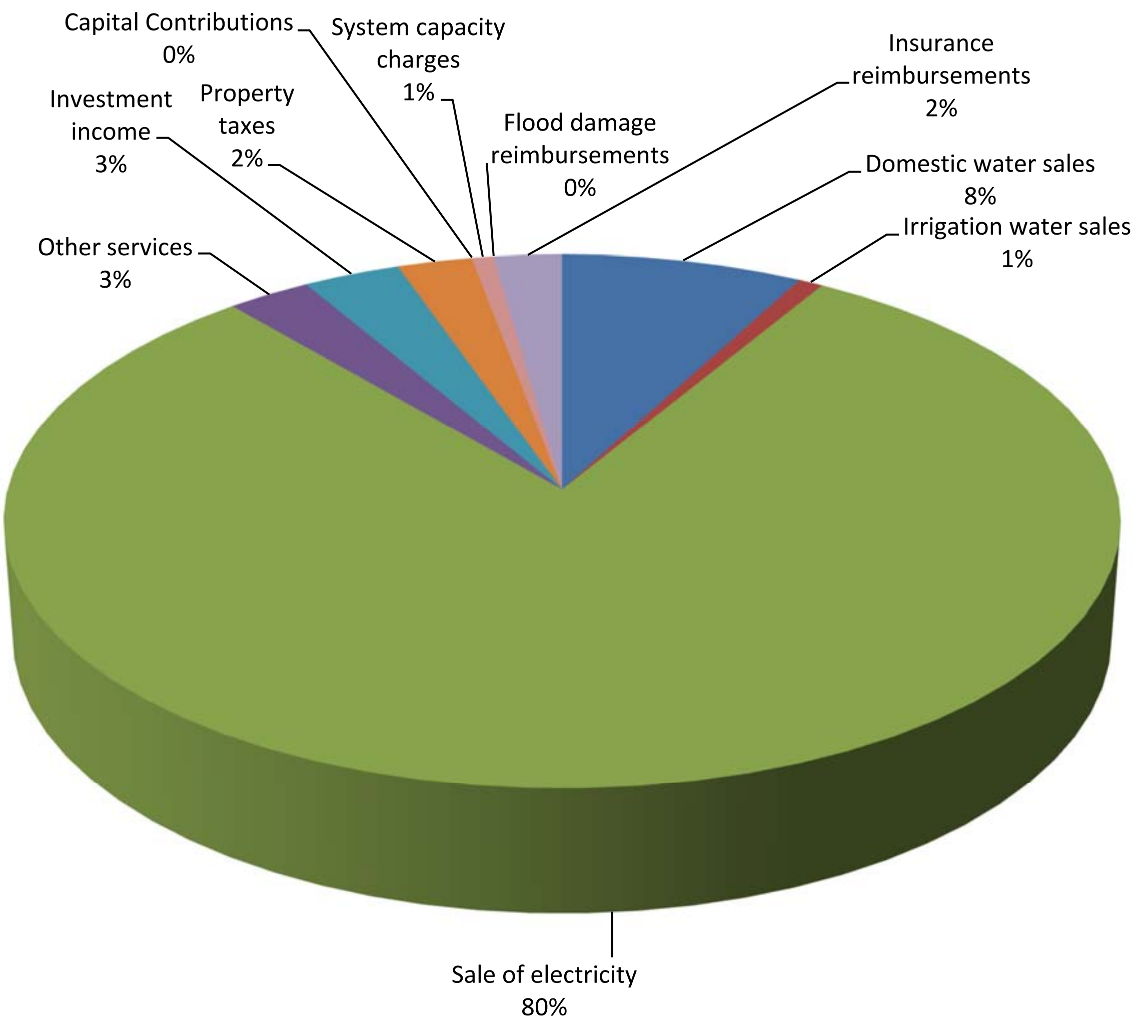
	2019	2018	2017
Current and other assets	$ 37,587,162	$ 32,711,703	$ 31,426,988
Restricted assets	574	574	3,969,435
Net capital assets	114,734,446	114,673,312	102,501,266
TOTAL ASSETS	152,322,182	147,385,589	137,897,689
Deferred outflows of resources	3,590,140	1,874,622	2,441,322
TOTAL DEFERRED OUTFLOWS	3,590,140	1,874,622	2,441,322
Current liabilities	5,043,037	4,476,528	6,094,915
Long-term liabilities	53,062,123	52,654,367	48,081,558
TOTAL LIABILITIES	58,105,160	57,130,895	54,176,473
Deferred inflows of resources	1,384,858	1,157,630	302,808
Net investment in capital assets	81,444,986	79,899,651	75,326,903
Restricted	193,556		1,512,906
Unrestricted	14,783,762	11,072,035	9,019,921
TOTAL NET POSITION	$ 96,422,304	$ 90,971,686	$ 85,859,730

The portion of the Agency's Net Position categorized as Unrestricted Net Position $14,783,762 (15.3%) may be used to meet the Agency's ongoing obligations to the public and its customers. As of December 31, 2019, the Agency reported positive balances in all three categories of net position.

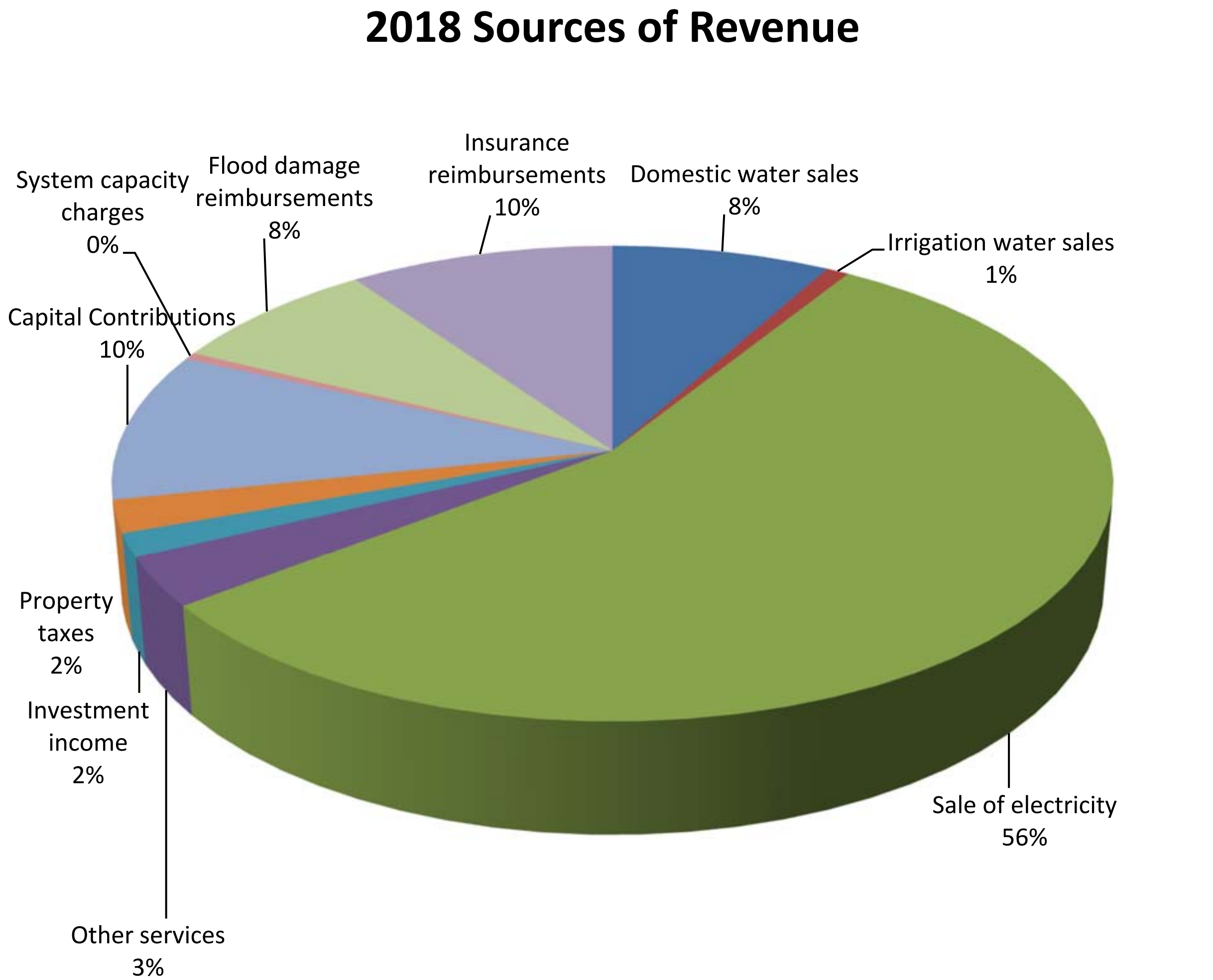
Analysis of the Agency's operations:

The following chart provides a summary of the Agency's Sources of Revenue for the year ended December 31, 2019.

2019 Sources of Revenue

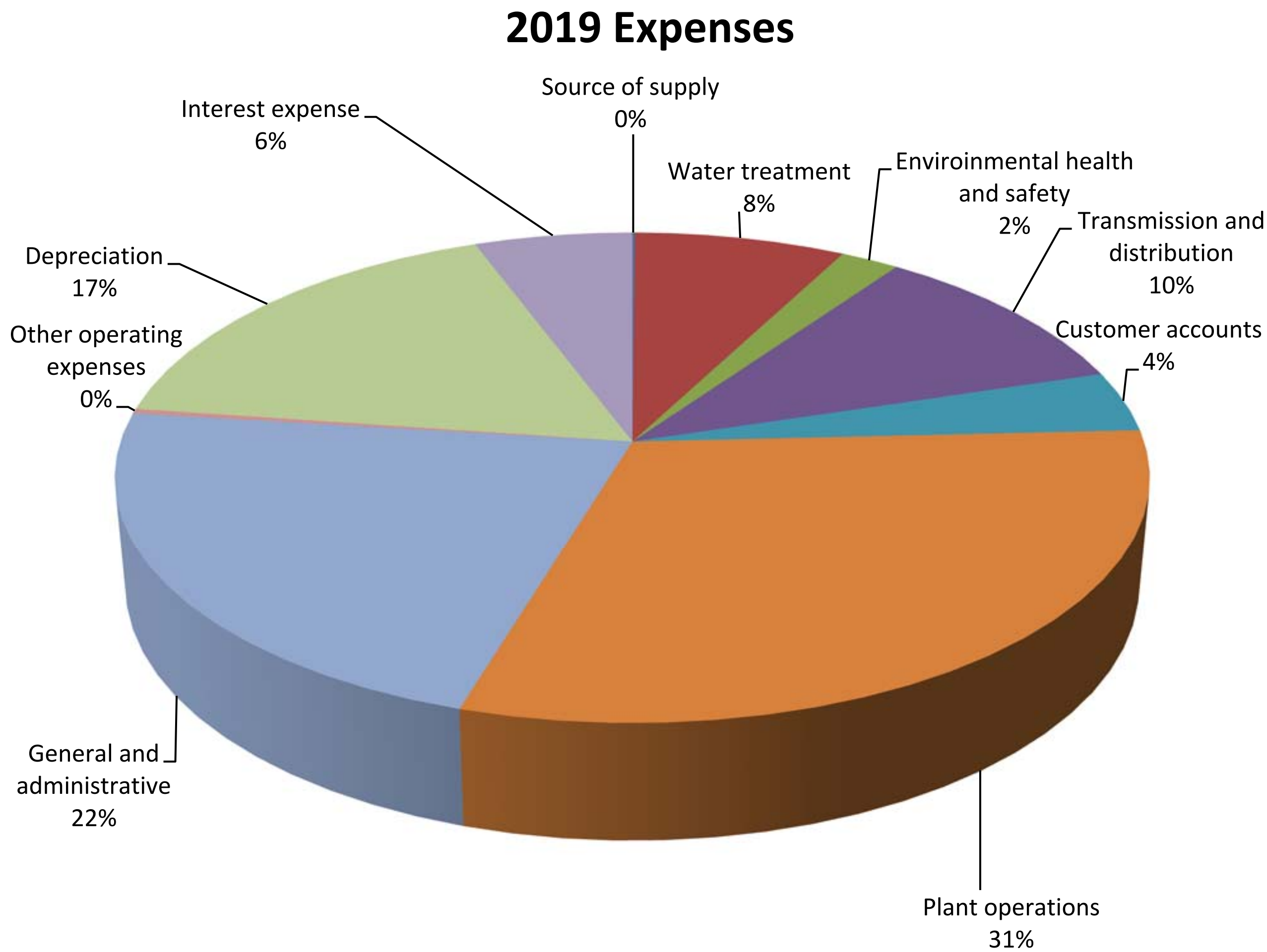


The following chart provides a summary of the Agency's Sources of Revenue for the year ended December 31, 2018.

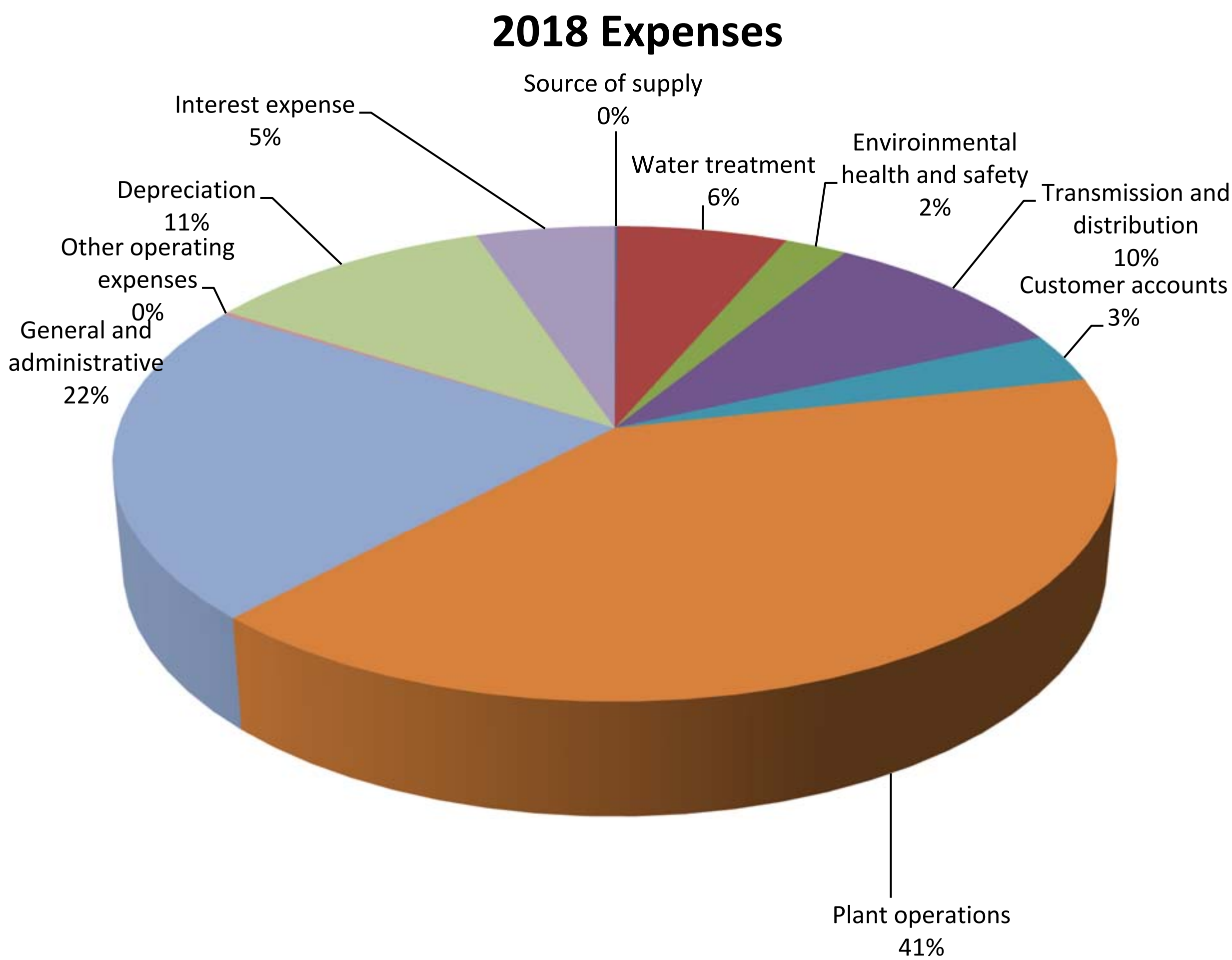


As the Sources of Revenue Chart above shows, $21,848,149, or 80% of the Agency's 2019 revenue came from the generation of hydroelectric power. An additional $2,357,236 or 9% came from Domestic and Irrigation Water Sales, $859,928 or 3% from investment income, $663,748 or 2% from property taxes and $601,929 or 2% from insurance reimbursements. The remaining $935,782 or 4% came from a variety of other sources.

The following chart provides a summary of the Agency's Expenses for the year ended December 31, 2019.



The following chart provides a summary of the Agency's Expenses for the year ended December 31, 2018.



The Expenses Chart above shows 2019 expenses for plant operations of $6,641,390 or 31%. 2019 depreciation and amortization expense was $3,726,287, or 17%. General and administrative expenses accounted for $4,851,407, or 22% of the total; transmission and distribution accounted for $2,277,470 or 10% of the total; and the remaining $4,322,200, or 20%, was made up of various other expenses as shown above.

The following table provides a summary of the Agency's operations for the years ended December 31, 2019, December 31, 2018 and December 31, 2017.

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

	2019	2018	2017
REVENUES			
Operating Revenues			
Domestic water sales	$ 2,138,729	$ 2,151,414	$ 2,116,331
Irrigation water sales	218,507	222,699	228,098
Sales of electricity	21,848,149	14,811,825	18,364,438
Other services	743,817	902,850	487,836
Total operating revenue	24,949,202	18,088,788	21,196,703
Non-operating revenues:			
Property taxes	663,748	585,383	568,094
Insurance refund	601,929	2,612,050	822,581
Gain or loss on sale of fixed assets	2,600	(619,010)	
Investment earnings	859,928	422,595	266,888
Miscellaneous non-operating revenue		2,099,530	
Total non-operating revenue	2,128,205	5,100,548	1,657,563
Capital contributions	191,965	2,819,509	4,029,935
TOTAL REVENUES	27,269,372	26,008,845	26,884,201
EXPENSES			
Operating	20,575,423	19,816,365	22,339,146
Non-operating	1,243,331	1,080,524	878,687
TOTAL EXPENSES	21,818,754	20,896,889	23,217,833
CHANGE IN NET POSITION	5,450,618	5,111,956	3,666,368
NET POSITION AT BEGINNING OF YEAR	90,971,686	85,859,730	90,494,534
Restatement			(8,301,172)
NET POSITION END OF YEAR	$ 96,422,304	$ 90,971,686	$ 85,859,730

As the table above shows, the Agency received operating revenues of $24,949,202 or 91% of the 2019 total revenue, $18,088,788, or 70% of the 2018 total revenue and $21,196,703, or 79% of the 2017 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 $2,128,205, or 8%, $5,100,548 or 20%, and $1,657,563, or 6%, of total revenue in 2019, 2018 and 2017 respectively. Non-operating 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 $1,260,527, or 5%, between 2019 and 2018. Sale of electricity revenue increased due to unusual hydropower generation pricing in February and March and significantly wetter than average winter storms in 2019. Total revenue decreased by $875,356, or 3%, between 2018 and 2017, because of the drier weather in 2018 decreasing the revenue from hydropower generation.

Total expenses increased by $921,865, or 4%, in 2019 compared to 2018, reflective of general price increases and the annual calculations of liabilities associated with pension and other post-employment benefits.

The 2017 net position is restated to account for the implementation of GASB Statement No. 75 regarding Other Post-employment Benefits (OPEB), a revision to the useful life estimate of an office remodel and the reclassification of the Kelly Ridge Powerhouse stator rewind project from construction in progress to a maintenance expense.

CAPITAL ASSETS

The South Feather Water & Power Agency's investment in capital assets (net of accumulated depreciation) amounts to $114,734,46 as of December 31, 2019. In 2019, 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 2019, 2018 and 2017.

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

	2019	2018	2017
Land, land rights and water rights	$ 2,138,103	$ 2,138,103	$ 2,138,103
Construction in progress	424,377	61,070	54,403,217
FERC relicensing in progress	5,716,306	5,716,306	5,716,306
Source of supply	147,963,548	144,974,866	101,197,995
Pumping plant	362,297	362,297	362,297
Miners Ranch Tratment Plan, tratment and transmission and distribution facilities	56,896,467	56,805,611	32,666,623
General plant and yard	12,317,831	12,034,548	11,924,855
Tailwater Depression System	124,445	124,445	124,445
Photovoltaic System - MRTP	2,142,701	2,142,701	2,142,701
Recreational facilities	1,183,989	1,134,095	963,302
Less: Accumulated Depreciation	(114,535,618)	(110,820,730)	(109,138,578)
TOTAL CAPITAL ASSETS	$ 114,734,446	$ 114,673,312	$ 102,501,266

Major capital asset events during 2019 included dam improvement projects and powerhouse improvements.

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

DEBT ADMINISTRATION

As of December 31, 2019, 2018 and 2017, the Agency's debt consisted of the following:

OUTSTANDING FINANCING DEBT

	2019	2018	2017
Installment payment agreements (COPs)			
Loan payable to PG&E	$ -	$ 8,113,749	$ 2,240,010
Certificates of Participation	25,610,000	26,190,000	26,760,000
Installment payment agreement	7,226,452		
TOTAL FINANCING DEBT	$ 32,836,452	$ 34,303,749	$ 29,000,010

In 2016, the Agency issued Certificates of Participation to defease outstanding 2012 Water Revenue Refunding Bonds and provide funds to complete construction of the Miners Ranch Treatment Plant Improvement Project. In March, 2020, Standard and Poors Global Ratings affirmed its 'A/Stable' rating on the certificates.

In 2019, a five-year Installment Purchase Agreement was entered into for the reimbursement to PG&E for the

Agency's share of the Lost Creek Dam Crest Modification project.

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.

Winter storms in 2017 and 2019 and the Oroville Dam Spillway collapse in 2017 caused significant damage to the Agency's infrastructure. All facilities are fully operational and all of the damage has been completely repaired. FEMA, CalOES and insurance proceeds provided significant funding towards the repair and replacement costs and the lost business income.

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. Payments to the Agency were not impacted by the PG&E bankruptcy proceedings. Negotiations for a new power purchase agreement are in process. The 2018 Camp Fire in nearby Paradise, while devastating and disruptive to the local area, had minimal direct impact to South Feather Water and Power Agency.

The Miners Ranch Water Treatment Plant Improvement Program has been completed, significantly increasing its production capacity. In February, 2020, the Agency increased its basic service rate by $4.00 per month to increase revenue from domestic and irrigation water sales. A review of opportunities for additional customers and adjustments to the rates in order to increase revenue from domestic and irrigation water sales is on-going.

The Lost Creek Dam Improvement Project has been completed. The project was funded by a short-term loan from PG&E. The PG&E loan was paid off on May 31, 2019 with funding provided from a five-year Installment Purchase Agreement.

The COVID-19 pandemic has had no significant impact on Agency revenues and expenses. Operations have been modified in order for the Agency to safely continue services and meet its on-going obligations.

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, 2019 and 2018

	2019	2018
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	$ 23,332,937	$ 16,556,881
Accounts receivable	4,172,637	5,677,511
Accrued interest receivable	109,934	89,073
Property taxes receivable	312,564	280,885
Inventory	809,715	801,830
Prepaid expenses	255,670	242,499
Loans receivable	6,417	7,815
TOTAL CURRENT ASSETS	28,999,874	23,656,494
NONCURRENT ASSETS		
Restricted cash and cash equivalents	574	574
Investments	8,587,288	9,055,209
Capital assets:		
Not being depreciated	8,278,786	7,915,479
Being depreciated	220,991,278	217,578,563
Less: accumulated depreciation	(114,535,618)	(110,820,730)
Total Capital Assets, Net	114,734,446	114,673,312
TOTAL NONCURRENT ASSETS	123,322,308	123,729,095
TOTAL ASSETS	152,322,182	147,385,589
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan	1,566,799	1,801,215
OPEB plan	1,962,522	
Deferred loss on bond refunding	60,819	73,407
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,590,140	1,874,622

(Continued)

SOUTH FEATHER WATER AND POWER AGENCY

STATEMENTS OF NET POSITION (Continued)

December 31, 2019 and 2018

	2019	2018
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 1,780,514	$ 1,592,699
Accrued payroll	344,349	340,816
Accrued interest payable	296,983	215,519
Deposits	30,175	198,047
Retainage payable		992,432
Other payables	97,772	113,938
Current portion of long-term liabilities	2,493,244	1,023,077
TOTAL CURRENT LIABILITIES	5,043,037	4,476,528
NONCURRENT LIABILITIES		
Long-term debt, noncurrent	31,213,421	34,194,235
Compensated absences, noncurrent	784,117	688,498
Net pension liability	5,238,532	4,584,129
Net OPEB liability	15,826,053	13,187,505
TOTAL NONCURRENT LIABILITIES	53,062,123	52,654,367
TOTAL LIABILITIES	58,105,160	57,130,895
DEFERRED INFLOWS OF RESOURCES		
Pension plan	295,194	244,695
OPEB plan	1,089,664	912,935
TOTAL DEFERRED INFLOWS OF RESOURCES	1,384,858	1,157,630
NET POSITION		
Net investment in capital assets	81,444,986	79,899,651
Restricted for capacity expansion	193,556	
Unrestricted	14,783,762	11,072,035
TOTAL NET POSITION	$ 96,422,304	$ 90,971,686

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, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Domestic water sales	$ 2,138,729	$ 2,151,414
Irrigation water sales	218,507	222,699
Sale of electricity	21,848,149	14,811,825
Other services	743,817	902,850
TOTAL OPERATING REVENUES	24,949,202	18,088,788
OPERATING EXPENSES		
Source of supply	17,468	15,891
Water treatment	1,662,851	1,330,741
Environmental health and safety	461,578	488,058
Transmission and distribution	2,277,470	1,972,489
Customer accounts	869,709	693,341
Plant operations	6,641,390	8,451,930
General and administrative	4,851,407	4,565,069
Other operating expenses	67,263	42,724
Depreciation	3,726,287	2,256,122
TOTAL OPERATING EXPENSES	20,575,423	19,816,365
NET INCOME (LOSS) FROM OPERATIONS	4,373,779	(1,727,577)
NON-OPERATING REVENUE (EXPENSES)		
Investment earnings	859,928	422,595
Property taxes	663,748	585,383
Insurance reimbursements	601,929	2,612,050
Gain (loss) on disposal of capital assets	2,600	(619,010)
Flood damage reimbursements		
Federal		1,643,111
State		456,419
Interest expense	(1,243,331)	(1,080,524)
TOTAL NON-OPERATING REVENUES (EXPENSES)	884,874	4,020,024
CAPITAL CONTRIBUTIONS		
Capital reimbursements		2,691,728
System capacity charges	191,965	127,781
TOTAL CAPITAL CONTRIBUTIONS	191,965	2,819,509
CHANGE IN NET POSITION	5,450,618	5,111,956
Net position at beginning of year	90,971,686	85,859,730
NET POSITION AT END OF YEAR	$ 96,422,304	$ 90,971,686

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 26,850,774	$ 15,567,251
Cash paid to suppliers for goods and services	(5,851,413)	(9,453,808)
Cash paid to employees for services	(9,131,682)	(9,820,086)
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,867,679	(3,706,643)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Non-operating revenue received		2,099,530
Property taxes received	632,069	585,504
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	632,069	2,685,034
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital reimbursements received	(564,570)	2,691,728
System capacity charges received	191,965	127,781
Acquisition of capital assets	(4,668,127)	(14,816,219)
Proceeds from sale of capital assets	41,603	9,271
Proceeds from insurance refund	601,929	2,612,050
Proceeds from loans payable	8,000,000	8,873,739
Payments on bonds and loans payable	(9,467,297)	(3,570,000)
Interest paid	(1,166,183)	(1,087,690)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(7,030,680)	(5,159,340)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings received	681,580	420,383
Purchases of investments	(2,649,398)	(3,660,008)
Proceeds from sales and maturities of investments	3,274,806	2,913,654
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,306,988	(325,971)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,776,056	(6,506,920)
Cash and cash equivalents at beginning of year	16,557,455	23,064,375
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 23,333,511	$ 16,557,455
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and cash equivalents	$ 23,332,937	$ 16,556,881
Cash and cash equivalents with fiscal agents	574	574
TOTAL CASH AND CASH EQUIVALENTS	$ 23,333,511	$ 16,557,455

(Continued)

SOUTH FEATHER WATER AND POWER AGENCY

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2019 and 2018

	2019	2018
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income (loss) from operations	$ 4,373,779	$ (1,727,577)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation and amortization	3,726,287	2,256,122
Changes in operating assets and liabilities:		
Accounts receivable	2,069,444	(3,052,845)
Inventory	(7,885)	(65,242)
Prepaid expenses	(13,171)	42,638
Loans receivable	1,398	1,120
Accounts payable	37,086	(2,042,559)
Accrued payroll	3,533	82,707
Deposits	(167,872)	(33,262)
Other payables	(16,166)	82,947
Compensated absences	69,173	(78,969)
Net pension liability	654,403	(163,929)
Net OPEB liability	2,638,548	(416,728)
Deferred outflows related to pension plan	234,416	554,112
Deferred outflows related to OPEB plan	(1,962,522)	
Deferred inflows related to pension plan	50,499	(58,113)
Deferred inflows related to OPEB plan	176,729	912,935
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 11,867,679	$ (3,706,643)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Amortization of bond premiums and discounts	$ (16,904)	$ (16,904)
Change in fair value of investments	157,487	(31,691)
Change in capital asset purchases included in liabilities	150,729	240,230

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 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 7,000 residential customers (domestic water) and 600 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 sold to Pacific Gas and Electric Company (PG&E).

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 statement of net position. Net

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

position is segregated into the net investment in capital assets, 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. Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Enterprise 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 and the sale of electricity. 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.

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.

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.

<u>Cash and Cash Equivalents</u>: For the purposes of the Statement of Cash Flows, the Agency's cash and cash equivalents include restricted and unrestricted cash on hand, bank deposits and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the California Local Agency Investment Fund (LAIF).

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.

<u>Receivables and Payables</u>: 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. 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, 2019 and 2018. Activities between combining units 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." These internal transactions are eliminated for reporting in the enterprise funds.

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

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

Compensated Absences: The Agency’s 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.

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

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 combining units 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 for reporting in the enterprise fund financial statements.

Net Position: The net position amount is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net investment in capital assets is 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.

Pension Plan: For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to the pension plan, and pension expense, information about the fiduciary net position of the Agency's California Public Employee's Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's 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.

Other Postemployment Benefits Plan (OPEB): For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources and OPEB expense, information about the fiduciary net position of the plan held by CalPERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments, if applicable, are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at purchase of one year or less, which are reported at cost.

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 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 and OPEB Plan as described in Note G.

Reclassifications: Non-operating grants were reclassified from capital to noncapital cash flows, capital asset purchases payable were reclassified from noncapital to capital cash flows and the capital asset purchases in liabilities was adjusted to include retention payable in the 2018 statement of cash flows.

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 April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* This Statement improves the information that is disclosed in the notes to government financial statements and clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences and significant subjective acceleration clauses. For notes to the financial statement there is a requirement that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the reporting periods beginning after June 15, 2018.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement enhances disclosures about capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest cost incurred before the end of a construction period. Interest cost incurred before the end of a construction period will be recognized as an expense rather than being recorded as part of the cost of capital assets in a business-type activity or enterprise fund and interest cost incurred by a fund using the current financial resources measurement

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

focus before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2018.

In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. This Statement provides temporary relief to governments due to the COVID-19 pandemic by postponing the effective dates of Statements and Implementation Guides that first become effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. Effective dates of the following Statements and Implementation Guides were postponed by one year: Statements No. 83, 84 and 88 to 93 as well as Implementation Guide No's 2018-1, 2019-1 and 2019-2. Effective dates for Statement No. 87 and Implementation Guide No. 2019-3 were postponed by 18 months. The requirements of this Statement are effective immediately. The implementation dates listed in the paragraphs above were adjusted as indicated in this paragraph.

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

NOTE B – CASH AND INVESTMENTS

Cash and investments were classified in the financial statements as shown below at December 31:

	2019	2018
Cash and cash equavalents	$ 23,332,937	$ 16,556,881
Investments	8,587,288	9,055,209
Restricted cash and cash equivalents	574	574
Total cash and investments	$ 31,920,799	$ 25,612,664

Cash and investments were comprised of the following at December 31:

	2019	2018
Cash on hand	$ 950	$ 950
Deposits with financial institutions	1,170,713	1,880,551
Total cash	1,171,663	1,881,501
Money market mutual funds	223,568	42,682
Local Agency Investment Fund (LAIF)	20,558,987	13,305,515
Negotiable certificates of deposit	7,195,825	7,859,403
U.S. Treasury note	248,599	
U.S. government agency securities	1,142,864	1,195,806
Investment Trust of California (CalTRUST)	1,379,293	1,327,757
Total investments	30,749,136	23,731,163
Total cash and investments	$ 31,920,799	$ 25,612,664

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	$ 40,000,000	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.

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:

NOTE B – CASH AND INVESTMENTS (Continued)

	Credit Rating	Remaining Maturity: 12 months or less	Remaining Maturity: 1-5 years	Fair Value
December 31, 2019				
Money market mutual funds	Not Rated	$ 223,568		$ 223,568
LAIF	Not Rated	20,558,987		20,558,987
Negotiable certificates of deposits	Not Rated	2,692,674	$ 4,503,151	7,195,825
U.S. Treasury note	AAA		248,599	248,599
U.S. government agency securities	AA+	349,981	792,883	1,142,864
CalTRUST	AAf	390	1,378,903	1,379,293
		$ 23,825,600	$ 6,923,536	$ 30,749,136

	Credit Rating	Remaining Maturity: 12 months or less	Remaining Maturity: 1-5 years	Fair Value
December 31, 2018				
Money market mutual funds	Not Rated	$ 42,682		$ 42,682
LAIF	Not Rated	13,305,515		13,305,515
Negotiable certificates of deposits	Not Rated	1,820,862	$ 6,038,541	7,859,403
U.S. government agency securities	AA+	948,893	246,913	1,195,806
CalTRUST	AA	379	1,327,378	1,327,757
		$ 16,118,331	$ 7,612,832	$ 23,731,163

Fair Value Measurement: The Agency categorizes 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:

2019	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Negotiable certificates of deposit	$ 7,195,825		$ 7,195,825	
U.S. Treasury note	248,599		248,599	
U.S. government agency securities	1,142,864		1,142,864	
Total investments by fair value level	8,587,288	$ -	$ 8,587,288	$ -
Assets measured at net asset value:				
Money market mutual funds	223,568			
Investments not categorized:				
LAIF	20,558,987			
CalTRUST	1,379,293			
	$ 30,749,136			

NOTE B – CASH AND INVESTMENTS (Continued)

	2018			
		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				
Negotiable certificates of deposit	$ 7,859,403		$ 7,859,403	
U.S. government agency securities	1,195,806		1,195,806	
Total investments by fair value level	9,055,209	$ -	$ 9,055,209	$ -
Assets measured at net asset value:				
Money market mutual funds	42,682			
Investments not categorized:				
LAIF	13,305,515			
CalTRUST	1,327,757			
	$ 23,731,163			

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, 2019 and 2018 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, 2019 and 2018, the deposits with financial institutions, in excess of the federal depository insurance limit, were collateralized by the pledging financial institution’s assets as required by law, which are not held in the name of the district. As of December 31, 2019 and 2018, the carrying amount of the Agency's bank deposits totaled $1,170,713 and $1,880,551 and the bank balances totaled

NOTE B – CASH AND INVESTMENTS (Continued)

$1,272,095 and $2,156,600, respectively. The differences between the carrying amounts and the bank balances are due to the normal deposits in transit and outstanding checks. At December 31, 2019 and 2018, the uninsured balances were $841,274 and $1,406,101, respectively, which were collateralized by securities held by the pledging financial institution, but not in the name of the Agency. Negotiable certificates of deposit, which are all below the federal depository insurance limit, are excluded from the amounts above.

U.S. Treasury and U.S. government agency securities in the amount of $1,391,463 and $1,195,806 as of December 31, 2019 and 2018, respectively, were held by the same broker-dealer (counterparty) that was used to buy the securities.

Investment in LAIF: The Agency is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. LAIF is managed by the State Treasurer. Of the amount invested in LAIF, 2.79% and 2.67% at December 31, 2019 and 2018 was invested in structured notes and asset-backed instruments. 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 amount 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.

Investment in Investment Trust of California (CalTRUST): The Agency is a voluntary participant in the Investment Trust of California (CalTRUST), which is a Joint Powers Authority governed by a Board of Trustees made up of local treasurers and investment officers. The Board of Trustees sets overall policy for CalTRUST and selects and supervises the activities of the Investment Manager and other agents. The Agency invests in CalTRUST's short-term and medium-term pools. Amounts that may be withdrawn from the short-term and medium-term pools are based on the net asset value per share and the number of shares held by participants in each pool.

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Balance at January 1, 2019	Additions	Disposals	Transfers	Balance at December 31, 2019
Capital assets, not being depreciated:					
Land, land rights and water rights	$ 2,138,103				$ 2,138,103
Construction in progress	61,070	$ 935,967	$ (15,144)	$ (557,516)	424,377
FERC relicensing in progress	5,716,306				5,716,306
Total capital assets, not being depreciated	7,915,479	935,967	(15,144)	(557,516)	8,278,786
Capital assets, being depreciated:					
Source of supply	144,974,866	2,568,815		419,867	147,963,548
Pumping plant	362,297				362,297
Miners Ranch Treatment Plant, treatment and transmissions and distribution facilities	56,805,611	33,104	(11,000)	68,752	56,896,467
General plant and yard	12,034,548	238,644	(24,258)	68,897	12,317,831
Tail water depression system	124,445				124,445
Photovoltaic system	2,142,701				2,142,701
Recreational facilities	1,134,095	49,894			1,183,989
Total capital assets being depreciated	217,578,563	2,890,457	(35,258)	557,516	220,991,278
Less: accumulated depreciation:					
Source of supply	(81,069,820)	(1,843,536)			(82,913,356)
Pumping plant	(325,066)	(4,255)			(329,321)
Miners Ranch Treatment Plant, treatment and transmissions and distribution facilities	(19,445,806)	(1,298,246)	11,399		(20,732,653)
General plant and yard	(8,148,402)	(502,673)			(8,651,075)
Tail water depression system	(124,445)				(124,445)
Photovoltaic system	(779,696)	(53,568)			(833,264)
Recreational facilities	(927,495)	(24,009)			(951,504)
Total accumulated depreciation	(110,820,730)	(3,726,287)	11,399		(114,535,618)
Total capital assets being depreciated, net	106,757,833	(835,830)	(23,859)	557,516	106,455,660
CAPITAL ASSETS, NET	$ 114,673,312	$ 100,137	$ (39,003)	$ -	$ 114,734,446

Depreciation expense for the year ended December 31, 2019 totaled $3,726,287.

NOTE C – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balance at January 1, 2018	Additions	Disposals	Transfers	Balance at December 31, 2018
Capital assets, not being depreciated:					
Land, land rights and water rights	$ 2,138,103				$ 2,138,103
Construction in progress	54,403,217	$ 14,932,602		$ (69,274,749)	61,070
FERC relicensing in progress	5,716,306				5,716,306
Total capital assets, not being depreciated	62,257,626	14,932,602		(69,274,749)	7,915,479
Capital assets, being depreciated:					
Source of supply	101,197,995	14,154		43,762,717	144,974,866
Pumping plant	362,297				362,297
Miners Ranch Treatment Plant, treatment and transmission and distribution facilities	32,666,623		$ (1,202,251)	25,341,239	56,805,611
General plant and yard	11,924,855	109,693			12,034,548
Tail water depression system	124,445				124,445
Photovoltaic system	2,142,701				2,142,701
Recreational facilities	963,302			170,793	1,134,095
Total capital assets being depreciated	149,382,218	123,847	(1,202,251)	69,274,749	217,578,563
Less: accumulated depreciation:					
Source of supply	(79,940,249)	(1,047,078)		(82,493)	(81,069,820)
Pumping plant	(320,811)	(4,255)			(325,066)
Miners Ranch Treatment Plant, treatment and transmission and distribution facilities	(19,524,599)	(577,670)	573,970	82,493	(19,445,806)
General plant and yard	(7,608,601)	(539,801)			(8,148,402)
Tail water depression system	(124,445)				(124,445)
Photovoltaic system	(726,130)	(53,566)			(779,696)
Recreational facilities	(893,743)	(33,752)			(927,495)
Total accumulated depreciation	(109,138,578)	(2,256,122)	573,970		(110,820,730)
Total capital assets being depreciated, net	40,243,640	(2,132,275)	(628,281)	69,274,749	106,757,833
CAPITAL ASSETS, NET	$ 102,501,266	$ 12,800,327	$ (628,281)	$ -	$ 114,673,312

Depreciation expense for the year ended December 31, 2018 totaled $2,256,122.

NOTE D – LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows for the years ended December 31:

	January 1, 2019	Additions	Reductions	December 31, 2019	Due Within One Year	Due After One Year
2016 Certificates of Particpation	$ 26,190,000		$ (580,000)	$ 25,610,000	$ 600,000	$ 25,010,000
Loan Payable	8,113,749		(8,113,749)			
Installment Purchase Agreement		$ 8,000,000	(773,548)	7,226,452	1,476,613	5,749,839
Total	34,303,749	8,000,000	(9,467,297)	32,836,452	2,076,613	30,759,839
Unamortized premiums	470,486		(16,904)	453,582		453,582
Total Debt and Loans	34,774,235	8,000,000	(9,484,201)	33,290,034	2,076,613	31,213,421
Compensated absences	1,131,575	711,873	(642,700)	1,200,748	416,631	784,117
Net pension liability	4,584,129	654,403		5,238,532		5,238,532
Net OPEB liability	13,187,505	3,411,531	(772,983)	15,826,053		15,826,053
Total Long-Term Liabilities	$ 53,677,444	$ 12,777,807	$(10,899,884)	$ 55,555,367	$ 2,493,244	$ 53,062,123

	January 1, 2018	Additions	Reductions	December 31, 2018	Due Within One Year	Due After One Year
2016 Certificates of Particpation	$ 26,760,000		$ (570,000)	$ 26,190,000	$ 580,000	$ 25,610,000
Loan Payable	2,240,010	$ 8,873,739	(3,000,000)	8,113,749		8,113,749
Total Long-Term Debt	29,000,010	8,873,739	(3,570,000)	34,303,749	580,000	33,723,749
Unamortized premiums	487,390		(16,904)	470,486		470,486
Total Debt and Loans	29,487,400	8,873,739	(3,586,904)	34,774,235	580,000	34,194,235
Compensated absences	1,210,544	620,223	(699,192)	1,131,575	443,077	688,498
Net pension liability	4,748,058		(163,929)	4,584,129		4,584,129
Net OPEB liability	13,604,233	996,429	(1,413,157)	13,187,505		13,187,505
Total Long-Term Liabilities	$ 49,050,235	$ 10,490,391	$ (5,863,182)	$ 53,677,444	$ 1,023,077	$ 52,654,367

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

2016 Certificates of Participation: In October 2016, the Agency issued $27,010,000 of Certificates of Participation (Certificates). The 2016 Certificates were issued to refund the 2012 Revenue Refunding Bonds and finance the Miners Ranch Water Treatment Plant Improvement Project. The 2012 Revenue Refunding Bonds were issued to refund the remaining balance of the 1980 Miners Ranch Domestic Revenue Bonds and 2003 Certificates of Participation. The Agency is required to collect rates, fees, and charges that will be sufficient to yield net water system and hydroelectric system revenues equal to 125% of debt service payments on outstanding debt and any future parity 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 $45,338 to $436,738 are due on April 1 and October 1 through April 1, 2046 at 2% to 4%. In the event of default, the remaining balance will immediately be due and payable. The default interest rate would be the JPMorgan Chase Bank Prime Rate plus 3%.

Loan Payable: In February 2010, the Agency entered into a cost-sharing agreement with PG&E for funding of the Sly Creek Dam and the Lost Creek Dam Crest Modification Projects. The agreement stated that the Agency will 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 exceeded the initial cost estimate, the Agency was required to reimburse PG&E 80% of the costs. All amounts due to PG&E from the Agency were due and payable by May 31, 2019. The loan was repaid with the proceeds of the installment purchase agreement described below.

NOTE D – LONG-TERM LIABILITIES (Continued)

Installment Purchase Agreement (Direct Placement): In May 2019, the District obtained a loan in the amount of $8,000,000 from a finance company to fund repayment of a loan from PG&E for the Sly Creek Dam Crest Modification and Lost Creek Dam Crest Modification projects. The Agency is required to collect rates, fees, and charges that will be sufficient to yield net water system and hydroelectric system revenues equal to 125% of debt service payments on outstanding debt and any future parity debt issued. The loan bears interest of 4.75% and will be repaid in semi-annual principal and interest payments of $901,270, from October 1, 2019 to April 1, 2024. As of December 31, 2019, the amount due to the finance company, including interest, totaled $7,226,452. In the event of default, the remaining balance will immediately be due and payable. The default interest rate would be the lower of 12% or the maximum permitted by law.

Future minimum payments on long-term liabilities will be as follows as of December 31:

2016 Certificates of Participation							
Year ended December 31,	2019 Principal	2019 Interest	2019 Totals	Year ended December 31,	2018 Principal	2018 Interest	2018 Totals
				2019	$ 580,000	$ 862,075	$ 1,442,075
2020	$ 600,000	$ 844,675	$ 1,444,675	2020	600,000	844,675	1,444,675
2021	615,000	826,675	1,441,675	2021	615,000	826,675	1,441,675
2022	635,000	808,225	1,443,225	2022	635,000	808,225	1,443,225
2023	655,000	789,175	1,444,175	2023	655,000	789,175	1,444,175
2024	675,000	769,525	1,444,525	2024-2028	3,620,000	3,595,625	7,215,625
2025-2029	3,755,000	3,457,575	7,212,575	2029-2033	4,370,000	2,846,425	7,216,425
2030-2034	4,520,000	2,698,775	7,218,775	2034-2038	5,095,000	2,119,800	7,214,800
2035-2039	5,250,000	1,961,625	7,211,625	2039-2043	5,960,000	1,253,363	7,213,363
2040-2044	6,155,000	1,059,663	7,214,663	2044-2046	4,060,000	266,663	4,326,663
2045-2046	2,750,000	134,713	2,884,713				
Total	$ 25,610,000	$ 13,350,626	$ 38,960,626		$ 26,190,000	$ 14,212,701	$ 40,402,701

Installment Purchase Agreement			
Year ended December 31,	2019 Principal	2019 Interest	2019 Totals
2020	$ 1,476,613	$ 325,927	$ 1,802,540
2021	1,547,585	254,955	1,802,540
2022	1,621,968	180,572	1,802,540
2023	1,699,926	102,614	1,802,540
2024	880,360	20,910	901,270
Total	$ 7,226,452	$ 884,978	$ 8,111,430

Pledged Revenue: The Agency pledged future water system and hydroelectric system revenues, net of specified expenses, to repay the 2016 Certificates and Installment Purchase Agreement (the Instruments) in the original amounts of $27,010,000 and $8,000,000, respectively. The purpose of the Instruments are described above. The Instruments are payable solely from net water system and hydroelectric system revenues (net revenues) and are payable through April 2046. Annual principal and interest payments on the Instruments are expected to require less than 50% of net revenues. Total principal and interest remaining to be paid on the Certificates was $38,960,626 and $40,402,701 at December 31, 2019 and 2018, respectively, and the remaining principal and interest remaining to be paid on the Installment Purchase Agreement was $8,111,430 at December 31, 2019. Total principal and interest paid on the 2016 Certificates from net revenues was $1,442,075 and $1,443,475 in 2019 and 2018, respectively, and total principal and interest paid on the Installment Purchase Agreement was $901,270 in 2019. The total net

NOTE D – LONG-TERM LIABILITIES (Continued)

revenues were $10,225,671 and $6,248,103 for the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, the District's net revenues were 436% and 433%, respectively, of cash basis debt service payments on the Instruments.

NOTE E – NET POSITION

Restrictions: Restricted net position consists 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 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:

	2019	2018
Retiree benefits	$ 3,594,547	$ 3,434,995
Designated for North Yuba Water District Agreement	11,189,215	7,637,040
Total Unrestricted Net Position	$ 14,783,762	$ 11,072,035

See Note L for a description of the 15% working capital and $18 million contingency reserve designated for the North Yuba Water District Agreement. Amount above is limited to total unrestricted net position.

NOTE F – PENSION PLAN

The Agency has a defined benefit pension plan and a defined contribution pension plan.

Defined Benefit Plan Description: All qualified permanent and probationary employees are eligible to participate in the Agency's cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). The Board participates in the CalPERS Miscellaneous Risk Pool and the following rate plans:

- Miscellaneous Rate Plan
- PEPRA Miscellaneous Rate Plan

Benefit provisions under the Plan are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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 Rate 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 are applied as specified by the Public Employees' Retirement Law.

NOTE F – PENSION PLAN (Continued)

The Plan's provisions and benefits in effect at December 31, 2019 and 2018, are summarized as follows:

Hire date	Miscellaneous Rate Plan (Prior to January 1, 2013)	PEPRA Miscellaneous Rate 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:		
July 1 to December 31, 2019	13.692%	6.985%
January 1 to June 30, 2019	12.759%	6.842%
July 1 to December 31, 2018	12.759%	6.842%
January 1 to June 30, 2018	12.036%	6.533%
Required employee contribution rates:		
July 1 to December 31, 2019	8.000%	6.750%
January 1 to June 30, 2019	8.000%	6.250%
July 1 to December 31, 2018	8.000%	6.250%
January 1 to June 30, 2018	8.000%	6.250%

The Miscellaneous Rate 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 Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended December 31, 2019 and 2018, the actuarially required contributions made to the Plan were $970,912 and $861,704, respectively.

Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources: As of December 31, 2019 and 2018, the Agency reported a net pension liability for its proportionate share of the net pension liability of the Plan of $5,238,532 and $4,584,129, respectively.

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability of the Miscellaneous Risk Pool. The net pension liability of the Plan is measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2018 and 2017 rolled forward to June 30, 2019 and 2018, 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 plan relative to the projected contributions of all participating employers, actuarially determined.

NOTE F – PENSION PLAN (Continued)

The Agency's proportionate share of the net pension liability for the Plan as of December 31, 2019 and 2018 was as follows:

Proportion - December 31, 2018	0.12164%
Proportion - December 31, 2019	0.13082%
Change - Increase (Decrease)	0.00918%
Proportion - December 31, 2017	0.12045%
Proportion - December 31, 2018	0.12164%
Change - Increase (Decrease)	0.00119%

For the years ended December 31, 2019 and 2018, the Agency recognized pension expense of $1,910,230 and $1,311,152, respectively. At December 31, the Agency reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 384,827		$ 466,701	
Differences between actual and expected experience	363,838	$ (28,190)	175,885	$ (59,853)
Changes in assumptions	249,797	(88,551)	522,604	(128,080)
Differences between the employer's contribution and the employer's proportionate share of contributions		(86,867)	7,132	(15,088)
Change in employer's proportion	568,337		606,230	(41,674)
Net differences between projected and actual earnings on plan investments		(91,586)	22,663	
Total	$ 1,566,799	$ (295,194)	$ 1,801,215	$ (244,695)

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the 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	2019	2018
2019		$ 676,009
2020	$ 671,877	493,444
2021	110,033	(38,403)
2022	86,361	(41,231)
2023	18,507	
	$ 886,778	$ 1,089,819

NOTE F – PENSION PLAN (Continued)

Actuarial Assumptions: The total pension liability in the June 30, 2019 and 2018 actuarial valuation for the Plan was determined using the following actuarial assumptions:

	2019	2018
Valuation date	June 30, 2018	June 30, 2017
Measurement date	June 30, 2019	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.50%	2.75%
Payroll growth	3.00%	3.00%
Projected salary increase	3.2% - 12.2% (1)	3.2% - 14.2% (1)
Investment rate of return	7.15%(2)	7.15%(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, 2019 and 2018 valuation were based on the results of a December 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 7.15% in the June 30, 2019 and 2018 valuations. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan it administers, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% 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% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

NOTE F – PENSION PLAN (Continued)

The table below reflects the long-term expected real rate of return by asset class for the Plan. 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.

	2019			2018		
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	50.0%	4.80%	5.98%	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%	28.0%	1.00%	2.62%
Inflation assets	0.0%	0.77%	1.81%	0.0%	0.77%	1.81%
Private equity	8.0%	6.30%	7.23%	8.0%	6.30%	7.23%
Real assets	13.0%	3.75%	4.93%	13.0%	3.75%	4.93%
Liquidity	1.0%		(0.92)%	1.0%		(0.92)%
Total	100.0%			100.0%		

(a) An expected inflation of 2.00% used for this period.
(b) An expected inflation of 2.92% used for this period.

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 Plan, calculated using the discount rate for the Plan, 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:

	2019	2018
1% Decrease	6.15%	6.15%
Net Pension Liability	$ 9,210,170	$ 8,295,013
Current Discount Rate	7.15%	7.15%
Net Pension Liability	$ 5,238,532	$ 4,584,129
1% Increase	8.15%	8.15%
Net Pension Liability	$ 1,960,225	$ 1,520,856

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

Payable to the Pension Plan: At December 31, 2019 and 2018, the Agency reported payables for the outstanding amount of contributions payable to the Plan of $26,652 and $49,733, respectively.

Defined Contribution Pension Plans, Plan Descriptions: The Agency offers two defined contribution retirement plans organized under Internal Revenue Code Section 401(a) to its employees. The first defined contribution retirement plan is a Governmental Volume Submitter Money Purchase Plan offered through Massachusetts Mutual Life Insurance Company called the South Feather Water & Power 401(a) Plan (the Plan). The second defined contribution retirement plan is a Governmental Defined Contribution Volume Submitter Plan offered through Lincoln Retirement Services Company. Employees are eligible for both plans after 30 days of service. The Plans are administered by the Agency.

NOTE F – PENSION PLAN (Continued)

Benefit terms, including contribution requirements, to the Plans are established and may be amended by the Board of Directors subject to the requirements of the Agency's Memorandum's of Understanding with bargaining units. The Agency is currently not required to contribute to the Plans and has not made any contributions since 2010. Employees may make voluntary contributions to the Plans up to 25% of their pay as defined in the Plan Documents. Employees immediately vest in their contributions and Agency contributions. No contributions were made to the Plan by employees or the Agency during the years ended December 31, 2019 or 2018.

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

Plan Description: The Agency's single employer defined benefit OPEB plan, South Feather Water and Power Agency Retiree Benefits Plan (the Plan), provides OPEB benefits 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. The Plan is 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, 2019 and 2018 the Agency had $3,594,547 and $3,434,995 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 for plan assets in paragraph 4 of Statement 75.

Benefits Provided: The Plan provides healthcare, dental and vision insurance benefits to 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 the Public Employees' Medical and Hospital Care Act (PEMHCA) provided through the California Public Employees' Retirement System (CalPERS). Employees may choose one of four medical options: Blue Shield HMO, Kaiser HMO, PERSCare PPO or PERSChoice PPO. In addition, dental and vision insurance are provided to employees and spouses 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. This amount was $2,397 in 2019.

Employees Covered by Benefit Terms: At December 31, 2019 and 2018, the following current and former employees were covered by the benefit terms under the SFWPARB Plan:

	2019	2018
Inactive employees or beneficiaries currently receiving benefit payments	37	31
Active employees	57	59
Total	94	90

Contributions: The Agency currently finances health insurance premiums on a pay-as-you-go basis. Total health insurance premiums paid, including implicit rate subsidies, during the years ended December 31, 2019 and 2018 were $400,584 and $379,032, respectively, including the implicit subsidy.

Total OPEB Liability: The Agency's total OPEB liability as of December 31, 2019 and 2018 was measured as of the same date, and was determined by an actuarial valuation as of December 31, 2019 and 2017, respectively.

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

Actuarial Assumptions and Other Inputs: The total OPEB liability in the December 31, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	2019	2018
Actuarial assumptions:		
Inflation	2.25%	3.50%
Salary increases	3.00%	3.00%
Discount rate	2.74%	3.71%
Pre-retirement mortality	RP-2014 Mortality	RP-2014 Mortality
Pre-retirement turnover	Crocker-Sarason Table T-5 less mortality, reduced by 20% for all ages	Crocker-Sarason Table T-5 less mortality, reduced by 20% for all ages
Mortality improvement	Sale MP-2016 graded from 100% through 2029 down to 20% in 2050	Not stated
Percent of retirees with spouses	60%	60%
Percent waiving coverage	10%	10%
Healthcare trend rate	Medical 6% for 2020, 5.5% for 2021, 5% for 2022 and 4.5% for 2023 and after. Dental and vision 4%	Medical 6% for 2017, 5% for 2018 and after. Dental and vision 4%

The discount rate was based on the Bond Buyer 20-bond General Obligation Index at December 31, 2019 and Standard and Poor's Municipal Bond 20 Year High Grade Index at December 31, 2018. Mortality information was based on the Society of Actuaries (SOA) RP-2014 Mortality Tables based on the results 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/.

Changes in the Total OPEB Liability

	2019 Increase (Decrease) Total OPEB Liability	2018 Increase (Decrease) Total OPEB Liability
Balance at December 31	$ 13,187,505	$ 13,604,233
Changes in the year:		
Service cost	591,746	574,511
Interest	366,632	421,918
Difference between expected and actual experience	(372,399)	
Changes of assumptions	2,453,153	(1,034,125)
Benefit payments	(400,584)	(379,032)
Net changes	2,638,548	(416,728)
Balance at December 31	$ 15,826,053	$ 13,187,505

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:

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

	2019			2018		
	1% Decrease 1.74%	Current Discount Rate 2.74%	1% Increase 3.74%	1% Decrease 2.71%	Current Discount Rate 3.71%	1% Increase 4.71%
Net OPEB liability	$ 18,568,573	$ 15,826,053	$ 13,639,564	$ 14,907,110	$ 13,187,505	$ 11,519,645

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:

	2019			2018		
	1% Decrease 5%	Current Healthcare Cost Trend Rates 6%	1% Increase 7%	1% Decrease 4%	Current Healthcare Cost Trend Rates 5%	1% Increase 6%
Net OPEB liability	$ 13,545,732	$ 15,826,053	$ 18,816,172	$ 11,370,023	$ 13,187,505	$ 15,159,594

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources: For the years ended December 31, 2019 and 2018, the Agency recognized OPEB expense of $1,253,339 and $875,239, respectively. The Agency had deferred inflows related to the OPEB plan from the following sources at December 31:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference betweee expected and actual experience		$ 297,919		
Changes of assumptions	$ 1,962,522	791,745		$ 912,935
Total	$ 1,962,522	$ 1,089,664	$ -	$ 912,935

Amortization of deferred inflows and outflows were as follows at December 31:

Year Ended June 30	2019	2018
2019		$ (121,190)
2020	$ 294,961	(121,190)
2021	294,961	(121,190)
2022	294,961	(121,190)
2023	294,960	(121,190)
2024	(121,190)	(121,190)
2025	(121,190)	(121,190)
2026	(64,605)	(64,605)
	$ 872,858	$ (912,935)

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.

NOTE H – COMMITMENTS AND CONTINGENCIES (Continued)

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.

The Agency and PG&E are currently corresponding on whether the power purchase agreement allows PG&E, at its option, to extend the term of the agreement beyond its natural termination on June 30, 2020 due to the Oroville Spillway incident causing the Kelly Ridge Powerhouse to suspend power generation operations from February, 2017 through July, 2018. PG&E's position expressed in correspondence is that the agreement is extended for all of the Agency's powerhouses. The Agency's position is that the terms of the agreement may only be extended as to the affected powerhouse. Delay in the implementation of a new power purchase agreement could result in the loss of additional power generation revenue to the Agency if terms of the new power purchase agreement terms were more favorable to the Agency than the existing agreement.

The Agency has on file before the California State Water Resource Control Board (SWRCB) petitions to extend its currently held water rights permits on the South Fork of the Feather River. These water rights permits, which otherwise were due to expire in December 2004, are the subject of an administrative process before the SWRCB. The Agency has taken all steps required to extend the permits, including making the necessary filings, providing the appropriate environmental documentation, as well as required agreements with the other entity using the same water supply, the North Yuba Water District. No adverse comments, protests, or requests for hearings were filed by any party in connection with this application. In January 2009, the SWRCB's staff issued an order denying the extension. The result of such order would require the Agency to limit its consumptive demand to current use, to license those quantities, and would require it, at substantial expense, to file a new application for new rights to accommodate growth. The Agency has sought rehearing of that order. No action has been taken. The Agency has also sought to engage the SWRCB in discussion but have received no response. If the staff decision is upheld by the SWRCB, the Agency will consider an appeal to the court. The order limits the water rights to current consumptive use and would impact potential, future consumptive use only. The order does not apply to water used for power generation.

The Agency and Sierra Mountain Construction, Inc. have settled all disputes arising out of the Lost Creek Dam Crest Modification project, Contract No. 2014LCD. The Agency made a payment in the amount of $1,150,000 in March 2020 and released its claims and dismissal of its cross-action. Sierra Mountain Construction Inc. released all claims and dismissed all actions pertaining to the project. The payment was capitalized as part of the Lost Creek Dam Crest Modification project costs.

NOTE I – ECONOMIC DEPENDENCY

During 2019 and 2018, the Agency received 81% and 62%, respectively, of its total operating and nonoperating revenue from PG&E for power generated from the Agency's power plants. A loss of this revenue source would have a significant impact on the Agency's operations.

NOTE J – RISK MANAGEMENT

The Agency participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials' liability, property damage, fidelity insurance and workers compensation liability. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group-purchased commercial excess insurance is obtained. The Agency pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The Agency's deductibles and maximum coverage are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (Includes public officials liability)	$ 5,000,000	$ 55,000,000	None
Property Damage	100,000	500,000,000	$ 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
Crime	100,000	1,000,000	1,000
Cyber Liability		3,000,000 per claim, 5,000,000 aggregate	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's power purchase agreement with PG&E ended on July 1, 2010, but continues on a month to month basis. The Agency is currently exploring options for a new power purchase agreement. Revenue to the Agency from this agreement is a combination of variable, market-based payments and a fixed monthly payment. Operations of the facilities are 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, 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 no distribution of net power revenue for the year ended December 31, 2019. There was a distribution of net power revenue for the year ended December 31, 2018 of $2,787,474. Due to the uncertainty of the amount, and whether a distribution will be made, the Agency does not accrue this amount as a liability 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 costs capitalized as of December 31, 2019 and 2018 amounted to $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 received 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, 2018, projects totaling $2,099,530 had been awarded reimbursement. The Agency did not accrue a receivable for any additional reimbursements of grant funded expenses incurred at December 31, 2018 because management did not believe the awards have received final approval from the granting agencies and it was uncertain whether the additional costs would be approved for reimbursement. No additional reimbursements were approved during the year ended June 30, 2019.

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 received reimbursements totaling $2,571,840 in 2018 for the cost of repairs. The Agency included the $250,000 insurance deductible as part of its claim with FEMA.

NOTE O – SUBSEQUENT EVENTS

The Agency received a payment from the ACWA JPIA for $549,536 in February 2020 for the costs to repair the Forbestown Powerhouse penstock, slope stabilization and business interruption loss that occurred in the summer of 2018. This amount was accrued as accounts receivable and insurance reimbursements non-operating revenue at December 31, 2019.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on citizens, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition or results of operations is uncertain. One possible effect could be lack of the ability of certain customers to pay for water services if the pandemic were to continue for an extended period.

REQUIRED SUPPLEMENTARY INFORMATION

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SOUTH FEATHER WATER AND POWER AGENCY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

	Year Ended December 31: 2019	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.130820%	0.121640%	0.120450%	0.111181%	0.101384%	0.110077%
Proportionate share of the net pension liability	$ 5,238,532	$ 4,584,129	$ 4,748,058	$ 3,862,276	$ 2,781,438	$ 2,720,542
Covered payroll - measurement period	$ 5,867,873	$ 5,952,396	$ 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	89.27%	77.01%	84.37%	69.33%	48.40%	53.15%
Plan fiduciary net position as a percentage of the total pension liability	82.26%	83.29%	81.13%	74.06%	78.40%	79.82%

Notes to Schedule:
Change in Benefit Terms: None.

Changes in assumptions: In 2017, the accounting discount rate was reduced from 7.65% to 7.15%.

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

	2019	2018	2017	2016	2015	2014
Contractually required contribution employer calendar year	$ 970,912	$ 861,704	$ 801,403	$ 596,806	$ 729,747	$ 431,342
Contributions in relation to the contractually required contributions	(970,912)	(861,704)	(801,403)	(596,806)	(729,747)	(431,342)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered - employee payroll - calendar year	$ 6,012,159	$ 5,897,229	$ 5,843,236	$ 5,374,903	$ 5,527,640	$ 5,382,338
Contributions as a percentage of covered - employee payroll	11.20%	11.20%	13.72%	11.10%	7.57%	8.01%
Date contributions were computed:	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
Valuation date:	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement date:	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Methods and assumptions used to determine contribution rates:						
Actuarial method			Entry age normal cost method			
Amortization method			Level percentage of payroll, closed			
Remaining amortization period			Not stated			
Asset valuation method			5-year smoothed market			
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases			Varies by entry age and service			
Investment rate of return	7.375%	7.50%	7.50%	7.50%	7.50%	7.50%
Retirement age			50-67 years			

Note: The 2017 contributions in the table above were revised in 2018 to represent accrual basis contributions.

Omitted years: GASB Statement No. 68 was implemented during the year ended December 31, 2014. No information was available prior to this date. Future years will be added prospectively as they become available.

SOUTH FEATHER WATER AND POWER AGENCY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
Last Ten Years

	Year Ended December 31:		
	2019	2018	2017
Total OPEB liability			
Service cost	$ 591,746	$ 574,511	$ 557,075
Interest	366,632	421,918	404,270
Differences between expected and actual experience	(372,399)		
Changes of assumptions	2,453,153	(1,034,125)	
Benefit payments	(400,584)	(379,032)	(298,629)
Net change in total OPEB liability	2,638,548	(416,728)	662,716
Total OPEB liability - beginning	13,187,505	13,604,233	12,941,517
Total OPEB liability - ending	$ 15,826,053	$ 13,187,505	$ 13,604,233
Covered-employee payroll - measurement period	$ 6,525,692	$ 6,288,405	$ 5,843,236
Total OPEB liability as percentage of covered-employee payroll	242.52%	209.71%	232.82%
Notes to schedule:			
Valuation date	December 31, 2019	December 31, 2017	December 31, 2017
Measurement period - calendar year ended	December 31, 2019	December 31, 2018	December 31, 2017
Discount Rate	2.74%	3.71%	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 of assumptions. The discount rate changes listed above represent a change of assumptions.

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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SOUTH FEATHER WATER AND POWER AGENCY

DESCRIPTION OF COMBINING BUDGET UNITS

December 31, 2019 and 2018

Fund 01 - General Fund: This unit 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 unit 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 unit 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 unit 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 unit is used to account for the Agency's Other Postemployment Benefits (OPEB) obligations.

Fund 59 - Debt Service Fund: This unit 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, 2019

	General Fund	Legacy Projects	Joint Facilities
ASSETS AND DEFERREED OUTFLOWS			
CURRENT ASSETS			
Cash and cash equivalents	$ 416,315		$ 19,177,119
Accounts receivable	579,481		3,593,156
Accrued interest receivable	109,934		
Property taxes receivable	312,564		
Inventory	220,507		589,208
Prepaid expenses	145,349		110,321
Loans receivable	6,417		
Due from other funds			9,442,857
TOTAL CURRENT ASSETS	1,790,567		32,912,661
NONCURRENT ASSETS			
Restricted cash and cash equivalents			
Investments	8,587,288		
Capital assets:			
Not being depreciated	1,053,074		7,225,712
Being depreciated	78,655,054		142,336,224
Less: accumulated depreciation	(35,923,075)		(78,612,543)
Total Capital Assets, Net	43,785,053		70,949,393
TOTAL NONCURRENT ASSETS	52,372,341		70,949,393
TOTAL ASSETS	54,162,908		103,862,054
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	915,877		650,922
OPEB plan	1,079,387		883,135
Deferred loss on bond refunding	60,819		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,056,083		1,534,057
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	103,076		1,677,438
Accrued payroll	213,588		130,761
Accrued interest payable			85,814
Deposits	30,175		
Other payables	97,835	$ (63)	
Due to other funds	6,400,548	2,666,634	
Current portion of long-term liabilities	249,951		1,643,293
TOTAL CURRENT LIABILITIES	7,095,173	2,666,571	3,537,306
NONCURRENT LIABILITIES			
Long-term debt, noncurrent			5,749,839
Compensated absences, noncurrent	362,664		421,453
Net pension liability	2,786,231		2,452,301
Net OPEB liability	8,762,039		7,064,014
TOTAL NONCURRENT LIABILITIES	11,910,934		15,687,607
TOTAL LIABILITIES	19,006,107	2,666,571	19,224,913
DEFERRED INFLOWS OF RESOURCES			
Pension plan	156,300		138,894
OPEB plan	599,315		490,349
TOTAL DEFERRED INFLOWS OF RESOURCES	755,615		629,243
NET POSITION			
Net investment in capital assets	16,245,432		65,199,554
Restricted for capacity expansion			
Unrestricted	20,211,837	(2,666,571)	20,342,401
TOTAL NET POSITION	$ 36,457,269	$ (2,666,571)	$ 85,541,955

MRTP System Capacity	Retiree Benefits	Debt Service	Total	Eliminating Entries	Final
$ 192,893	$ 3,545,610	$ 1,000	$ 23,332,937		$ 23,332,937
			4,172,637		4,172,637
			109,934		109,934
			312,564		312,564
			809,715		809,715
			255,670		255,670
			6,417		6,417
663	48,937		9,492,457	$ (9,492,457)	
193,556	3,594,547	1,000	38,492,331	(9,492,457)	28,999,874
		574	574		574
			8,587,288		8,587,288
			8,278,786		8,278,786
			220,991,278		220,991,278
			(114,535,618)		(114,535,618)
			114,734,446		114,734,446
		574	123,322,308		123,322,308
193,556	3,594,547	1,574	161,814,639	(9,492,457)	152,322,182
			1,566,799		1,566,799
			1,962,522		1,962,522
			60,819		60,819
			3,590,140		3,590,140
			1,780,514		1,780,514
			344,349		344,349
		211,169	296,983		296,983
			30,175		30,175
			97,772		97,772
		425,275	9,492,457	(9,492,457)	
		600,000	2,493,244		2,493,244
		1,236,444	14,535,494	(9,492,457)	5,043,037
		25,463,582	31,213,421		31,213,421
			784,117		784,117
			5,238,532		5,238,532
			15,826,053		15,826,053
		25,463,582	53,062,123		53,062,123
		26,700,026	67,597,617	(9,492,457)	58,105,160
			295,194		295,194
			1,089,664		1,089,664
			1,384,858		1,384,858
			81,444,986		81,444,986
193,556			193,556		193,556
	3,594,547	(26,698,452)	14,783,762		14,783,762
$ 193,556	$ 3,594,547	$ (26,698,452)	$ 96,422,304	$ -	$ 96,422,304

SOUTH FEATHER WATER AND POWER AGENCY

COMBINING SCHEDULE OF NET POSITION

December 31, 2018

	General Fund	Legacy Projects	Joint Facilities
ASSETS AND DEFERREED OUTFLOWS			
CURRENT ASSETS			
Cash and cash equivalents		$ 98,487	$ 13,072,336
Accounts receivable	$ 483,317	576,150	4,618,044
Accrued interest receivable	89,073		
Property taxes receivable	280,885		
Inventory	211,933		589,897
Prepaid expenses	147,799		94,700
Loans receivable	7,815		
Due from other funds			5,045,831
TOTAL CURRENT ASSETS	1,220,822	674,637	23,420,808
NONCURRENT ASSETS			
Restricted cash and cash equivalents			
Investments	9,055,209		
Capital assets:			
Not being depreciated	993,403		6,922,076
Being depreciated	78,439,473		139,139,090
Less: accumulated depreciation	(34,068,840)		(76,751,890)
Total Capital Assets, Net	45,364,036		69,309,276
TOTAL NONCURRENT ASSETS	54,419,245		69,309,276
TOTAL ASSETS	55,640,067	674,637	92,730,084
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	1,044,805		756,410
Deferred loss on bond refunding	73,407		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,118,212		756,410
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	68,612	1,200,394	323,693
Accrued payroll	209,342	5,853	125,621
Accrued interest payable	1	(1)	
Deposits	198,047		
Retainage payable		992,432	
Other payables	110,651	(21)	3,308
Due to other funds	5,047,309	46,459	
Current portion of long-term liabilities	262,551		180,526
TOTAL CURRENT LIABILITIES	5,896,513	2,245,116	633,148
NONCURRENT LIABILITIES			
Long-term debt, noncurrent			8,113,749
Compensated absences, noncurrent	337,796		350,702
Net pension liability	2,426,309		2,157,820
Net OPEB liability	7,310,838		5,876,667
TOTAL NONCURRENT LIABILITIES	10,074,943		16,498,938
TOTAL LIABILITIES	15,971,456	2,245,116	17,132,086
DEFERRED INFLOWS OF RESOURCES			
Pension plan	128,526		116,169
OPEB	502,114		410,821
NET POSITION			
Net investment in capital assets	18,704,124		61,195,527
Unrestricted	21,452,059	(1,570,479)	14,631,891
TOTAL NET POSITION	$ 40,156,183	$ (1,570,479)	$ 75,827,418

Retiree Benefits	Debt Service	Total	Eliminating Entries	Final (As Restated)
$ 3,386,058		$ 16,556,881		$ 16,556,881
		5,677,511		5,677,511
		89,073		89,073
		280,885		280,885
		801,830		801,830
		242,499		242,499
		7,815		7,815
48,937		5,094,768	$ (5,094,768)	
3,434,995		28,751,262	(5,094,768)	23,656,494
	$ 574	574		574
		9,055,209		9,055,209
		7,915,479		7,915,479
		217,578,563		217,578,563
		(110,820,730)		(110,820,730)
		114,673,312		114,673,312
	574	123,729,095		123,729,095
3,434,995	574	152,480,357	(5,094,768)	147,385,589
		1,801,215		1,801,215
		73,407		73,407
		1,874,622		1,874,622
		1,592,699		1,592,699
		340,816		340,816
	215,519	215,519		215,519
		198,047		198,047
		992,432		992,432
		113,938		113,938
	1,000	5,094,768	(5,094,768)	
	580,000	1,023,077		1,023,077
	796,519	9,571,296	(5,094,768)	4,476,528
	26,080,486	34,194,235		34,194,235
		688,498		688,498
		4,584,129		4,584,129
		13,187,505		13,187,505
	26,080,486	52,654,367		52,654,367
	26,877,005	62,225,663	(5,094,768)	57,130,895
		244,695		244,695
		912,935		912,935
		79,899,651		79,899,651
3,434,995	(26,876,431)	11,072,035		11,072,035
$ 3,434,995	$ (26,876,431)	$ 90,971,686	$ -	$ 90,971,686

SOUTH FEATHER WATER AND POWER AGENCY

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the year ended December 31, 2019

	General Fund	Legacy Projects	Joint Facilities
OPERATING REVENUE			
Domestic water sales	$ 2,138,729		
Irrigation water sales	218,507		
Sale of electricity	2,216,278		$ 19,631,871
Other services	718,999		24,818
TOTAL OPERATING REVENUE	5,292,513		19,656,689
OPERATING EXPENSES			
Source of supply	17,468		
Water treatment	1,662,851		
Environmental health and safety	213,742		247,836
Transmission and distribution	2,277,470		
Customer accounts	869,709		
Plant operations	1,181,094		5,460,296
General and administrative	1,953,158		2,897,149
Other operating expenses	67,263		
Depreciation	1,865,236		1,861,051
Amortization			
TOTAL OPERATING EXPENSES	10,107,991		10,466,332
NET INCOME (LOSS) FROM OPERATIONS	(4,815,478)		9,190,357
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	85,266		665,557
Property taxes	663,748		
Insurance reimbursements			601,929
Gain (loss) on disposal of captial assets	2,600		
Interest expense	(12,588)		(398,697)
TOTAL NON-OPERATING REVENUES (EXPENSES)	739,026		868,789
CAPITAL CONTRIBUTIONS			
Capital reimbursements			
System capacity charges			
TOTAL CAPITAL CONTRIBUTIONS			
INCOME (LOSS) BEFORE TRANSFERS	(4,076,452)		10,059,146
TRANSFERS			
Transfers in	1,420,584		1,096,094
Transfers out	(1,043,046)	$ (1,096,092)	(1,440,703)
TOTAL TRANSFERS	377,538	(1,096,092)	(344,609)
CHANGE IN NET POSITION	(3,698,914)	(1,096,092)	9,714,537
Net position at beginning of year	40,156,183	(1,570,479)	75,827,418
NET POSITION AT END OF YEAR	$ 36,457,269	$ (2,666,571)	$ 85,541,955

MRTP System Capacity	Retiree Benefits	Debt Service	Total	Eliminating Entries	Final
			$ 2,138,729		$ 2,138,729
			218,507		218,507
			21,848,149		21,848,149
			743,817		743,817
			24,949,202		24,949,202
			17,468		17,468
			1,662,851		1,662,851
			461,578		461,578
			2,277,470		2,277,470
			869,709		869,709
			6,641,390		6,641,390
		$ 1,100	4,851,407		4,851,407
			67,263		67,263
			3,726,287		3,726,287
		1,100	20,575,423		20,575,423
		(1,100)	4,373,779		4,373,779
$ 1,591	$ 107,352	162	859,928		859,928
			663,748		663,748
			601,929		601,929
			2,600		2,600
		(832,046)	(1,243,331)		(1,243,331)
1,591	107,352	(831,884)	884,874		884,874
191,965			191,965		191,965
191,965			191,965		191,965
193,556	107,352	(832,984)	5,450,618		5,450,618
	52,200	1,010,963	3,579,841	$ (3,579,841)	
			(3,579,841)	3,579,841	
	52,200	1,010,963			
193,556	159,552	177,979	5,450,618		5,450,618
	3,434,995	(26,876,431)	90,971,686		90,971,686
$ 193,556	$ 3,594,547	$ (26,698,452)	$ 96,422,304	$ -	$ 96,422,304

SOUTH FEATHER WATER AND POWER AGENCY

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the year ended December 31, 2018

	General Fund	Legacy Projects	Joint Facilities
OPERATING REVENUE			
Domestic water sales	$ 2,151,414		
Irrigation water sales	222,699		
Sale of electricity	1,635,742		$ 13,176,083
Other services	464,742		438,108
TOTAL OPERATING REVENUE	4,474,597		13,614,191
OPERATING EXPENSES			
Source of supply	15,891		
Water treatment	1,330,741		
Environmental health and safety	258,473		229,585
Transmission and distribution	1,972,489		
Customer accounts	693,341		
Plant operations	1,026,764		7,425,166
General and administrative	1,960,736		2,603,333
Other operating expenses	42,724		
Depreciation	1,155,736		1,100,386
TOTAL OPERATING EXPENSES	8,456,895		11,358,470
NET INCOME (LOSS) FROM OPERATIONS	(3,982,298)		2,255,721
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	110,229	$ 140	249,218
Property taxes	585,383		
Insurance refund			2,612,050
Flood damage reimbursements			
Federal			1,643,111
State			456,419
Gain (loss) on sale and disposition of capital assets	(619,010)		
Interest expense	(12,588)		(220,113)
TOTAL NON-OPERATING REVENUES (EXPENSES)	64,014	140	4,740,685
CAPITAL CONTRIBUTIONS			
Capital reimbursements		2,691,728	
System capacity charges			
TOTAL CAPITAL CONTRIBUTIONS		2,691,728	
INCOME (LOSS) BEFORE TRANSFERS	(3,918,284)	2,691,868	6,996,406
TRANSFERS			
Transfers in	28,641,738		16,182,322
Transfers out	(430,839)	(16,182,322)	(4,697,696)
TOTAL TRANSFERS	28,210,899	(16,182,322)	11,484,626
CHANGE IN NET POSITION	24,292,615	(13,490,454)	18,481,032
Net position at beginning of year	15,863,568	11,919,975	57,346,386
NET POSITION AT END OF YEAR	$ 40,156,183	$ (1,570,479)	$ 75,827,418

MRTP System Capacity	Retiree Benefits	Debt Service	Total	Eliminating Entries	Final (As Restated)
			$ 2,151,414		$ 2,151,414
			222,699		222,699
			14,811,825		14,811,825
			902,850		902,850
			18,088,788		18,088,788
			15,891		15,891
			1,330,741		1,330,741
			488,058		488,058
			1,972,489		1,972,489
			693,341		693,341
			8,451,930		8,451,930
		$ 1,000	4,565,069		4,565,069
			42,724		42,724
			2,256,122		2,256,122
		1,000	19,816,365		19,816,365
		(1,000)	(1,727,577)		(1,727,577)
$ 1,710	$ 52,898	8,400	422,595		422,595
			585,383		585,383
			2,612,050		2,612,050
			1,643,111		1,643,111
			456,419		456,419
			(619,010)		(619,010)
		(847,823)	(1,080,524)		(1,080,524)
1,710	52,898	(839,423)	4,020,024		4,020,024
			2,691,728		2,691,728
127,781			127,781		127,781
127,781			2,819,509		2,819,509
129,491	52,898	(840,423)	5,111,956		5,111,956
		430,839	45,254,899	$ (45,254,899)	
(8,803,397)		(15,140,645)	(45,254,899)	45,254,899	
(8,803,397)		(14,709,806)			
(8,673,906)	52,898	(15,550,229)	5,111,956		5,111,956
8,673,906	3,382,097	(11,326,202)	85,859,730		85,859,730
$ -	$ 3,434,995	$ (26,876,431)	$ 90,971,686	$ -	$ 90,971,686

SOUTH FEATHER WATER AND POWER AGENCY

OTHER SUPPLEMENTARY INFORMATION
DEBT SERVICE COVERAGE RATIOS

For the Years Ended December 31, 2019 and 2018

	2019	2018
REVENUES		
Operating revenues	$ 24,949,202	$ 18,088,788
Investment earnings	859,928	422,595
Property taxes	663,748	585,383
Insurance reimbursements	601,929	2,612,050
Flood damage reimbursements		
Federal		1,643,111
State		456,419
TOTAL REVENUES	27,074,807	23,808,346
EXPENSES		
Total Operating Expenses	20,575,423	19,816,365
Less: Depreciation	(3,726,287)	(2,256,122)
TOTAL EXPENSES	16,849,136	17,560,243
NET REVENUES	10,225,671	6,248,103
ACTUAL DEBT SERVICE PAYMENTS (CASH BASIS)		
2016 Certificates of Participation - principal	580,000	570,000
2016 Certificates of Participation - interest	862,075	873,475
Installment Purchase Agreement - principal	773,548	
Installment Purchase Agreement - interest	127,722	
TOTAL ACTUAL 2019 DEBT SERVICE PAYMENTS	2,343,345	1,443,475
Debt Coverage Ratio - Actual	**4.36**	**4.33**
Required Ratio	**1.25**	**1.25**
DEBT SERVICE COVERAGE RATIO WITH FULL YEAR OF INSTALLMENT PURCHASE AGREEMENT PAYMENTS		
Net revenues	$ 10,225,671	$ 6,248,103
Total 2016 Certificates of Participation debt service payments	1,442,075	1,443,475
Installment Purchase Agreement - principal (represent 2020 payments) *	1,547,585	1,476,613
Installment Purchase Agreement - interest (represent 2020 payments) *	254,955	325,927
	3,244,615	3,246,015
Debt Coverage Ratio - Including Full Year of Installment Purchase Agreement Payments	**3.15**	**1.92**
Required Ratio	**1.25**	**1.25**

* Payments represent calendar year 2020 payments, which is the first calendar year that both semi-annual payments will be made.

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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, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 4, 2020.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2019-001, that we consider to be a significant deficiency.

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*.

The Agency's Response to Finding

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

September 4, 2020

SOUTH FEATHER WATER AND POWER AGENCY

SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2019

INTERNAL CONTROL OVER FINANCIAL REPORTING

CURRENT YEAR FINDINGS

FINDING 2019-001

Criteria: Government Auditing Standards effective during the 2019 audit result in more scrutiny of nonaudit services provided auditors, such as assistance with audit adjustments and closing entries, because nonaudit services are considered to be a threat to the auditor's independence. The expectation is that issuers provide effective internal controls over financial reporting and employ external resources if time constraints exist or more knowledge is needed to ensure financial activities are reported in accordance with Generally Accepted Accounting Principles without the assistance of the auditor.

Condition: Numerous adjustments and closing entries were posted during the audit, including entries to close net income into net position to agree opening net position to the balance in the prior year financial statements, reposting prior year entries, closing entries for pension and OPEB accounts, adjusting payables, balancing interfund borrowings, separating cash and cash equivalents from investments and other entries.

Effect: The audit began in April and was completed in early September. The adjustments and closing entries delay completion of the audit and result in the audit taking more hours to complete than if the general ledger was final at the start of the audit. It is harder to determine whether the reported balances are appropriate if the balances change during the audit and it is difficult to stop the audit and pick it back up weeks or months later and remember the issues that need to be addressed. It increases the risk that an error exists that will not be identified during the audit. It is also difficult to schedule staff time when the audit has to stop and be resumed as entries and supporting documentation are received.

Cause: The Agency's closing process did not identify all entries necessary to record the District's financial activity in accordance with generally accepted accounting principles. Pension and OPEB entries were not determined until after the general ledger was provided. We believe the COVID-19 pandemic that began when the closing process began resulted in less time available for the closing. However, it is the issuer's responsibility to have appropriate internal controls over financial reporting necessary to make sure the general ledger is final at the start date of the audit.

Recommendation: We recommend the Agency add additional review procedures necessary to ensure general ledger accounts are reconciled and updated prior to the start of the audit in the future. The Agency also should not close net income into net position for the year until the audit is complete to ensure any audit adjustments may be posted in the year under audit. Net position should be reconciled to the audited financial statements after closing net income after the financial statements are issued. The closing process takes a significant amount of time. It is often cited as a second full-time job by accounting staff. Since the Agency does not have a qualified accountant to assist the Finance Division Manager with the closing as do most governments the Agency's size, we recommend considering whether temporary help is needed during the closing process from a qualified CPA or other person familiar with governmental accounting to ensure the Agency's staff has time to fully reconcile all accounts prior to the start date of the audit.

Management's Response: The Agency will implement the recommendations prior to the December 31, 2020 audit.

PRIOR YEAR FINDINGS

None

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