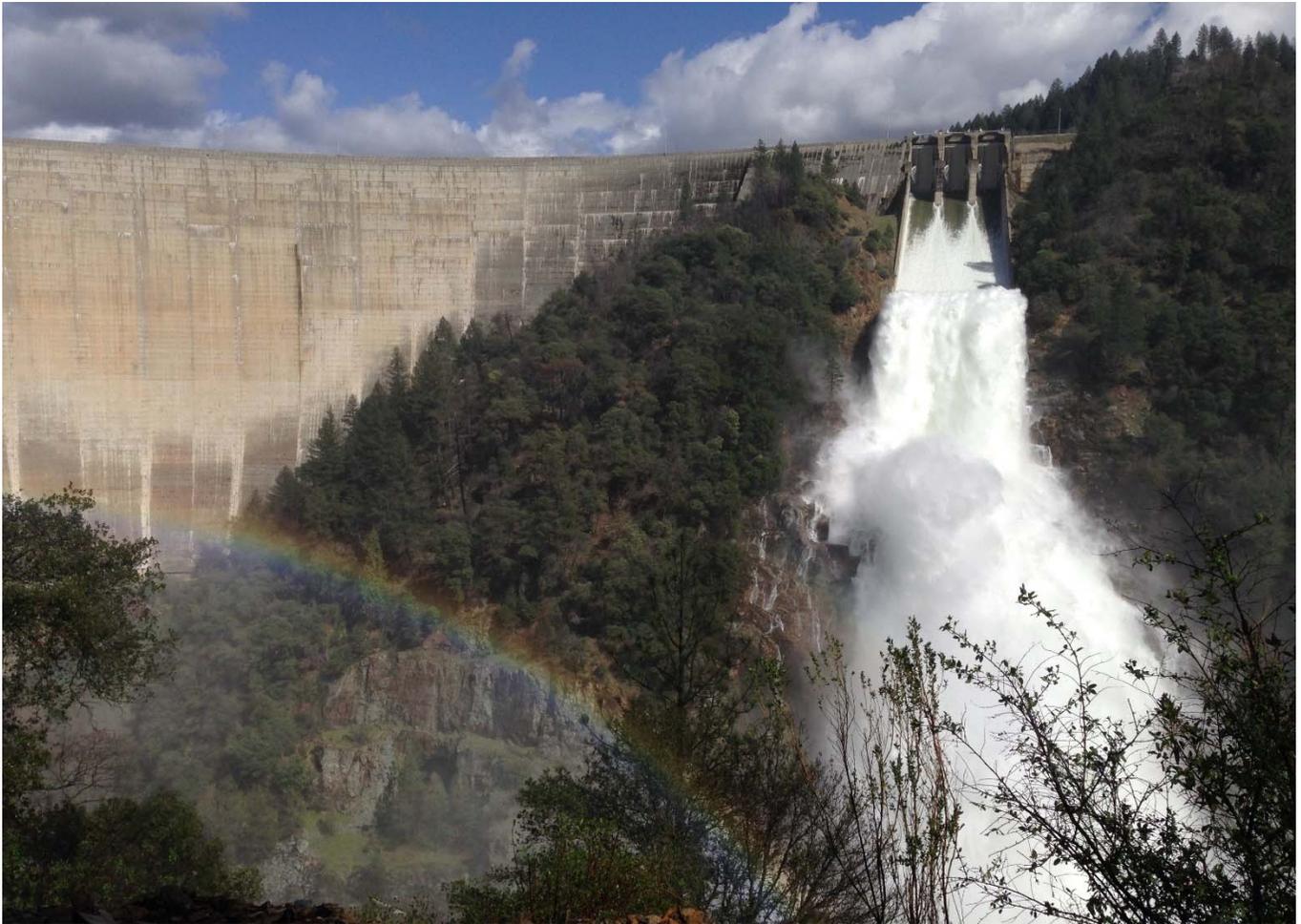


**YUBA COUNTY WATER AGENCY
MARYSVILLE, CALIFORNIA**



AUDITED FINANCIAL STATEMENTS

**For the Years Ended
June 30, 2016 and 2015**

YUBA COUNTY WATER AGENCY
MARYSVILLE, CALIFORNIA

AUDITED FINANCIAL STATEMENTS

*For the Years Ended
June 30, 2016 and 2015*

YUBA COUNTY WATER AGENCY
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For The Years Ended June 30, 2016 and 2015

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YUBA COUNTY WATER AGENCY
Agency Officials
June 30, 2016

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Tib Belza	Chairman	December 2016
Roger Abe	Vice Chairman	December 2016
John Nicoletti	Director	December 2016
Randy Fletcher	Director	December 2018
Mary Jane Griego	Director	December 2016
Brent Hastey	Director	December 2018
Andy Vasquez	Director	December 2018

OTHER AGENCY OFFICIALS

Curt Aikens	General Manager
Mike Kline	Power Systems Manager
Page Hensley	Finance Manager
Terri Daly	Administrative Manager

FINANCIAL SECTION



550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Yuba County Water Agency
Marysville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Yuba County Water Agency (Agency), a component unit of the County of Yuba, as of and for the year ending June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2016 and the results of its operations and cash flows for the year then ended in accordance 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

Prior Period Financial Statements

The financial statements of the Agency as of June 30, 2015, were audited by other auditors whose report dated December 22, 2015, expressed an unmodified opinion on those statements and included an emphasis-of-matter paragraph describing the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of Statement No. 68*.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the proportionate share of the net pension liability, schedule of contributions to the pension plan and schedule of funding progress of the other postemployment benefits plan, as listed in the accompanying table of contents, 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 is 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic 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 February 7, 2017 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control 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

February 7, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE AGENCY

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Agency's activities in a way that will help the reader determine if the Agency, as a whole, is better or worse off as a result of the year's activities. In addition, the reader will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

NET POSITION

As can be seen in **Table 1 below**, Net Position increased by \$28.53 million to a balance of \$241.26 million in FY 2015-16, up from the \$212.73 million balance in FY 2014-15. This increase of 13.4% is the result of a \$19.56 million increase in Assets balanced against a \$1.73 million increase in Deferred Pension Outflows and a \$.45 million increase in Deferred Pension Inflows (GASB 68), a \$.50 million decrease to Current Liabilities and a \$6.29 million decrease in Noncurrent Liabilities.

In FY 14-15, Net Position decreased by \$1.31 million to a balance of \$212.73 million in FY 2014-15, down slightly from the \$214.04 million balance in FY 2013-14. This decrease of less than 1% is the result of a \$21.87 million increase in Assets balanced against a \$3.39 million net increase in Pension Liability (GASB 68), a \$2.0 million increase to Accounts Payable and a \$17.79 million increase in water transfer unearned revenue.

TABLE 1
CONDENSED STATEMENTS OF NET POSITION
As of June 30

	2016	2015	Increase (Decrease)	Percent Change	2014	Increase (Decrease)	Percent Change
ASSETS:							
Current assets	\$ 64,569,728	\$ 58,044,056	\$ 6,525,672	11.24%	\$ 41,499,399	\$ 16,544,657	39.87%
Capital assets, net	199,097,553	188,229,069	10,868,484	5.77%	183,279,023	4,950,046	2.70%
Other assets	7,946,505	5,777,995	2,168,510	37.53%	5,406,857	371,138	6.86%
TOTAL ASSETS	271,613,786	252,051,120	19,562,666	7.76%	230,185,279	21,865,841	9.50%
DEFERRED OUTFLOWS:							
Pension plan	2,280,393	548,810	1,731,583	315.52%	-	548,810	100.00%
TOTAL DEFERRED OUTFLOWS	2,280,393	548,810	1,731,583	315.52%	-	548,810	100.00%
LIABILITIES:							
Current liabilities	5,250,667	5,749,036	(498,369)	-8.67%	3,743,764	2,005,272	53.56%
Noncurrent liabilities	26,828,569	33,117,614	(6,289,045)	-18.99%	12,395,079	20,722,535	167.18%
TOTAL LIABILITIES	32,079,236	38,866,650	(6,787,414)	-17.46%	16,138,843	22,727,807	140.83%
DEFERRED INFLOWS:							
Pension plan	553,966	997,337	(443,371)	-44.46%	-	997,337	100.00%
TOTAL DEFERRED INFLOWS	553,966	997,337	(443,371)	-44.46%	-	997,337	100.00%
Net Position							
Net investment in capital assets	199,097,553	188,229,069	10,868,484	5.77%	183,279,023	4,950,046	2.70%
Unrestricted	42,163,424	24,506,874	17,656,550	72.05%	30,767,413	(6,260,539)	-20.35%
TOTAL NET POSITION	\$ 241,260,977	\$ 212,735,943	\$ 28,525,034	13.41%	\$ 214,046,436	\$ (1,310,493)	-0.61%

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2016

REVENUES EXPENSES AND CHANGES IN NET POSITION

While the Statements of Net Position shows the changes in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers concerning the nature and source of these changes. As shown in **Table 2 below**, Total Revenues increased \$27.58 million due to increases in water sales and the May and June power generation. The remaining increase can be attributed to a Capital Contribution related to the PG&E closeout. These shifts all combined for a Net Position increase of \$28.52 million.

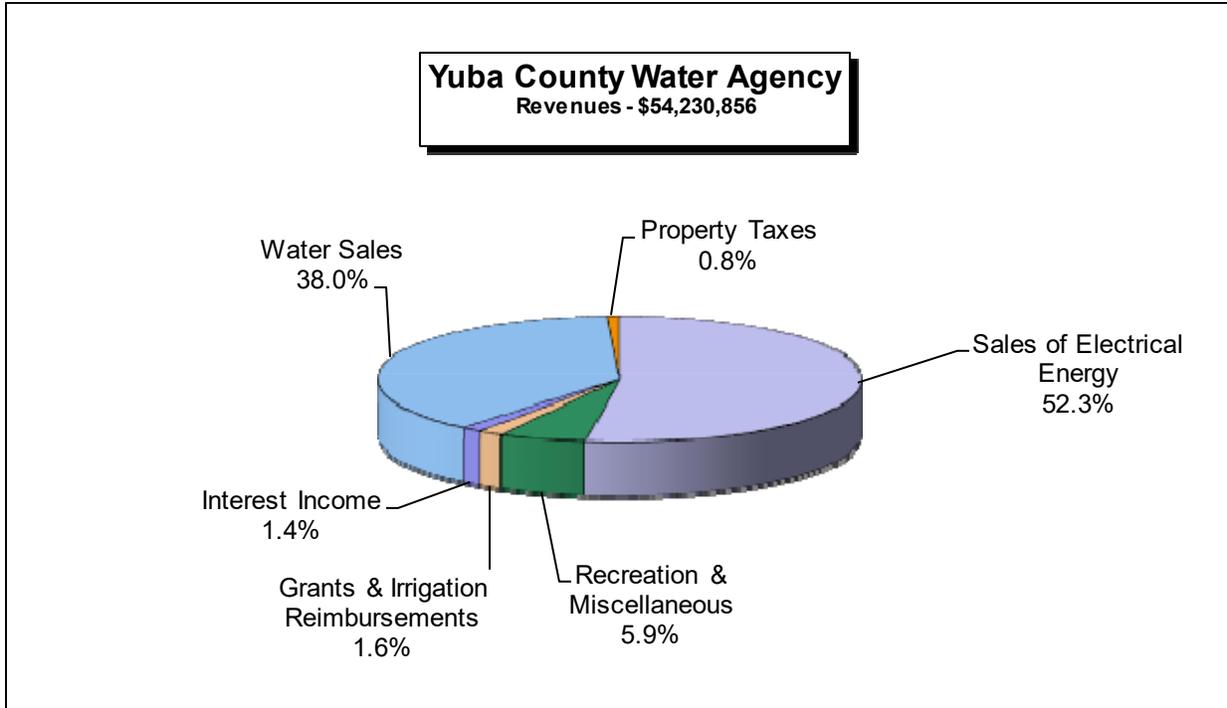
In FY 14-15, Total Revenues decreased \$1.17 million due primarily to decreases in grant income, interest income and water sales (continued dry conditions). The remaining decrease can be attributed to a small increase in Total Expenses related to ongoing Power Systems maintenance projects offset by a Capital Contribution (donation of several gauging stations by USGS). These shifts all combined for a Net Position decrease of \$1.3 million.

TABLE 2
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended June 30

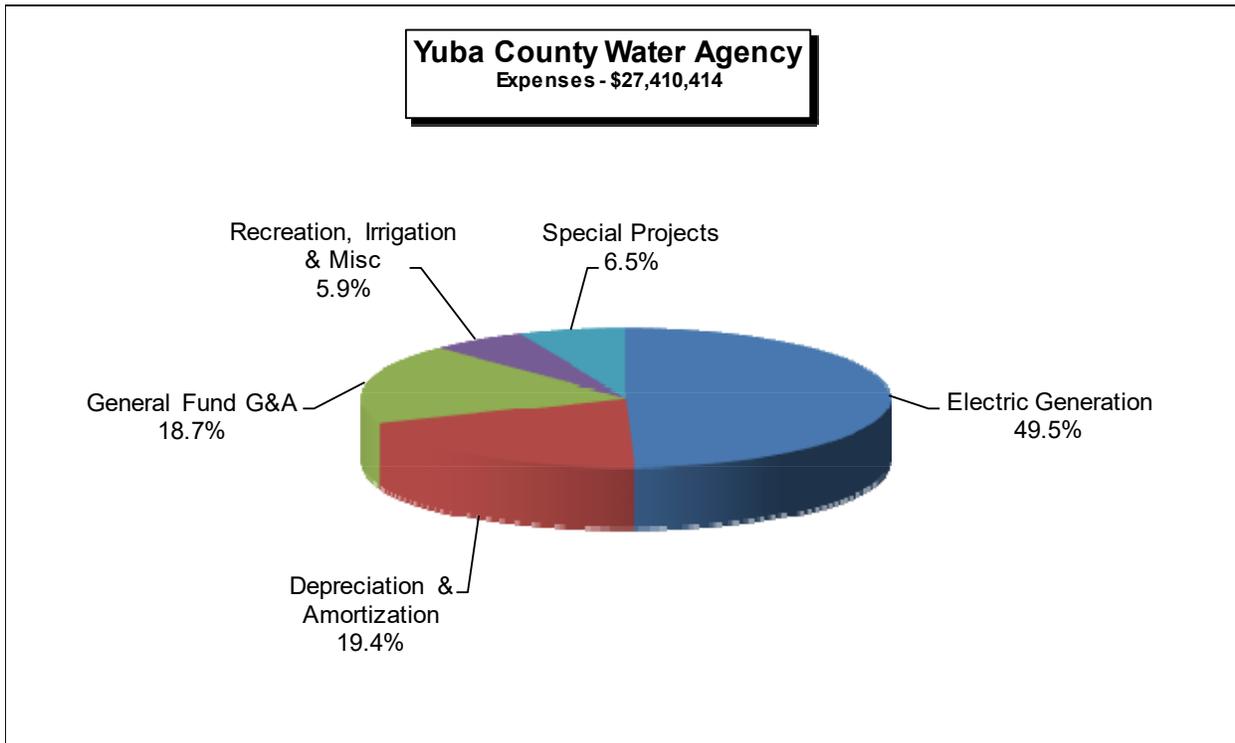
	2016	2015	Increase (Decrease)	Percent Change	2014	Increase (Decrease)	Percent Change
REVENUES:							
Sales of electrical energy	\$ 28,346,203	\$ 14,763,601	\$ 13,582,602	92.00%	\$ 14,832,028	\$ (68,427)	-0.46%
Water sales	20,600,456	9,588,078	11,012,378	114.85%	10,107,474	(519,396)	-5.14%
TOTAL OPERATING REVENUES	48,946,659	24,351,679	24,594,980	101.00%	24,939,502	(587,823)	-2.36%
Nonoperating revenues	5,284,197	2,296,812	2,987,385	130.07%	2,878,890	(582,078)	-20.22%
TOTAL REVENUES	54,230,856	26,648,491	27,582,365	103.50%	27,818,392	(1,169,901)	-4.21%
EXPENSES:							
Operating expenses, excluding depreciation	13,545,815	12,923,905	621,910	4.81%	11,102,243	1,821,662	16.41%
Depreciation	5,323,763	4,875,299	448,464	9.20%	4,485,971	389,328	8.68%
Nonoperating expenses	8,540,836	6,807,259	1,733,577	25.47%	8,530,021	(1,722,762)	-20.20%
TOTAL EXPENSES	27,410,414	24,606,463	2,803,951	11.40%	24,118,235	488,228	2.02%
Capital contributions	1,704,592	230,265	1,474,327	640.27%	-	230,265	100.00%
CHANGE IN NET POSTION	28,525,034	2,272,293	26,252,741	1155.34%	3,700,157	(1,427,864)	-38.59%
Net Position, Beginning of Year	212,735,943	214,046,436	(1,310,493)	-0.61%	210,346,279	3,700,157	1.76%
Effect of Change in Accounting Principle		(3,582,786)	3,582,786	100.00%		(3,582,786)	100.00%
Net Position, Beginning of Year, as Restated	212,735,943	210,463,650	2,272,293	1.08%	210,346,279	117,371	0.06%
NET POSITION, END OF YEAR	\$ 241,260,977	\$ 212,735,943	\$ 28,525,034	13.41%	\$ 214,046,436	\$ (1,310,493)	-0.61%

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2016

The following chart illustrates the revenues of the Agency for the fiscal year ended June 30, 2016.



The following chart illustrates the expenses of the Agency for the fiscal year ended June 30, 2016.



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2016

CAPITAL ASSETS

As can be seen in **Table 3 below**, the Agency's capital assets, net of accumulated depreciation, increased by \$10.87 million to \$199.10 million. Construction in Progress was just under \$33 million for FY 2015-16; just over \$13.7 million in completed projects moved from CIP to Depreciable Capital Assets including the Unit 1 Transformer, the Unit 2 Transformer, Colgate 24/7 Control Room, Hallwood Communication Path, Microwave Communications System, and NBB Dam Drain Cleaning. Major projects still underway include FERC Relicensing (\$30.1M), N2 Cone Valve Shroud Installation, Road 169 Slide and Cottage Creek Dam partial removal (\$1.7M). A summary of the Agency's capital assets are as follows:

**TABLE 3
CAPITAL ASSETS, NET
As of June 30**

	2016	2015	Increase (Decrease)	Percent Change	2014	Increase (Decrease)	Percent Change
Nondepreciable capital assets:							
Land and land rights	\$ 2,923,388	\$ 2,843,440	\$ 79,948	2.81%	\$ 2,843,440	\$ -	0.00%
Water rights	85,835	85,835	-	0.00%	85,835	-	0.00%
Canals	4,605,454	4,605,454	-	0.00%	4,605,454	-	0.00%
Construction in progress	32,649,914	34,384,832	(1,734,918)	-5.05%	28,979,982	5,404,850	18.65%
	<u>40,264,591</u>	<u>41,919,561</u>	<u>(1,654,970)</u>		<u>36,514,711</u>	<u>5,404,850</u>	<u>14.80%</u>
Depreciable capital assets:							
Recreation facilities	1,516,201	1,516,201	-	0.00%	1,516,201	-	0.00%
General plant	17,772,786	12,559,035	5,213,751	41.51%	11,322,351	1,236,684	10.92%
Irrigation canals	17,487,652	17,443,908	43,744	0.25%	17,213,643	230,265	1.34%
Hydrolic Production	227,693,747	222,796,329	4,897,418	2.20%	222,129,884	666,445	0.30%
Electric plant acquisition	4,485,248	4,485,248	-	0.00%	4,485,248	-	0.00%
Transmission equipment	9,519,672	1,859,381	7,660,291	411.98%	1,411,076	448,305	31.77%
Intangible assets	248,292	248,292	-	0.00%	248,292	-	0.00%
	<u>278,723,598</u>	<u>260,908,394</u>	<u>17,815,204</u>	<u>6.83%</u>	<u>258,326,695</u>	<u>2,581,699</u>	<u>1.00%</u>
Less: accumulated depreciation	<u>(119,890,636)</u>	<u>(114,598,886)</u>	<u>(5,291,750)</u>	<u>4.62%</u>	<u>(111,562,383)</u>	<u>(3,036,503)</u>	<u>2.72%</u>
Net Capital Assets	<u>\$ 199,097,553</u>	<u>\$ 188,229,069</u>	<u>\$ 10,868,484</u>	<u>5.77%</u>	<u>\$ 183,279,023</u>	<u>\$ 4,950,046</u>	<u>2.70%</u>

ECONOMIC OUTLOOK

The Yuba County Water Agency is continuing to support work on several flood mitigation projects with the main effort focused on the Marysville levee improvements and continued improvement of the Forecasted Coordinated Operations program. Work continues on the grant funded Groundwater Model and we have completed work on an Agriculture Water Management Plan Update and irrigation water metering and measurement plan to be in compliance with SBX7-7. The Agency petitioned DWR to become a Groundwater Sustainability Agency for the North Yuba and South Yuba groundwater sub-basins in accordance with the Sustainable Groundwater Management Act of 2014. YCWA continues work on a \$3 million Corps of Engineers Ecosystem Restoration Study for the Yuba River, agreed to in 2015, and continues work to finalize a fish passage program on the Yuba River.

In 2016, seven of the eight water supply contracts with Member Units expired. One water supply contract that was executed in 2009 does not expire until 2036. Interim agreements were reached with six of the seven Member Units. Subsequent to the close of 2015-16, agreements were reached for 30-years contracts with eight Member Units.

The 50-year Power Purchase Agreement with Pacific Gas and Electric Company (PG&E), that financed the construction of the Yuba River Development Project, ended April 30, 2016. The Agency has

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2016

contracted with Shell Energy of North America (SENA) to be YCWA's Scheduling Coordinator with the California Independent System Operator (CAISO) for the sale of electricity from the Colgate and Narrows 2 Powerhouses effective May 1, 2016. Since May 1st, YCWA has refined processes in working with SENA and the CAISO to efficiently track and manage power generation and sale. Significant investment into manpower and facilities, which commenced several years ago to be able to independently operate the facilities from PG&E, are being completed. Those investments included a state-of-the-art Control Room and staff to operate 24/7, upgraded computer, operating, communications systems, and the new Microsoft Dynamics GP Enterprise Resource Planning (ERP) software. Remaining projects include completion of a redundant communications system based at the new Yuba County Sheriff's Office, and the completion of a tunnel coating project. Major work continues to assess and plan updates to aging equipment over the next five years.

In 2008, YCWA joined with Yuba County to provide the local share (\$46.6 million), through a \$78 million bond sale backed by impact fees, for a \$138 million Prop 1E Levee Improvement Grant. The Three Rivers Levee Improvement Authority has constructed the Feather River Setback Levee and other levee improvements within Reclamation District 784's territory. One more phase of work is needed by TRLIA to improve the level of protection to a 200 year level. After the close of the 2015-16 fiscal year, YCWA and the County successfully refinanced the bonds at a favorable rate resulting in a reduction of annual payments in excess of \$700,000.

The Lower Yuba Accord was settled and new Water Rights Order #2008-0014 was issued in 2008, securing long term water transfer ability through 2025. Dry water conditions created surface water transfers of 59,131AF in 2015 and 60,869AF in 2016, which satisfies the entire 480,000AF of surface water prepaid in 2008. In addition, the Agency made a Schedule 6 Ground Water Substitution transfer in 2015 for 30,000 acre feet. A return to wet conditions makes any transfers in 2017 unlikely.

The Accord contained an opener on surface transfer water pricing for transfers starting in 2016 for a 5-year period. Agreement on a new pricing schedule was reached in December 2014 which roughly doubled the price and provided a \$20 million upfront payment. As yet, no transfers have been made under this new agreement. Approximately 60,000 acre-feet of water transfer was completed in 2016, which fulfilled the final obligation for Component 1 of the Yuba Accord.

The Agency was granted a 50-year license to operate the Yuba River Project for generation of electricity; Federal Energy Regulatory Commission (FERC) License #2246 expired on April 30, 2016. HDR Engineering, Inc. has been retained to lead the Agency through the 8-year FERC relicensing effort. A cash reserve sufficient to cover anticipated costs has been established. The Final License Application was filed with FERC on April 28, 2014. Although the bulk of the relicensing costs have been expended, we anticipate another \$2 million in costs in fiscal 2016-17 for delayed studies and environmental work. On April 7, 2016, FERC issued an Annual License, which allows YCWA to operate the Project under the Terms and Conditions of the existing license. FERC will continue to issue annual licenses until a new license is issued which is anticipated to be several years or more.

The Agency has a legal obligation to move forward on a new fish screen for the South Canal Diversion to replace the existing screen as part of a lawsuit settlement. The new water supply agreements with the South Member Units call for them to pay either 50% or 70% of the cost of a new screen, depending on the type of screen constructed. The Agency is obligated to pay the remainder of the cost of a new screen and offer financing for the South Member Unit share of the project costs. YCWA is proceeding in a collaborative effort with the South Member Units to select a suitable project. Preliminary study results indicate there may be a screen option in the \$12 million range. Sound fiscal management and finalization of the Lower Yuba River Accord have had a positive effect on the Agency's reserves which have achieved levels sufficient to satisfy long-term operations and capital project needs, such as this.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2016

CONTACTING THE AGENCY'S DEPARTMENT OF FINANCIAL SERVICES

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Yuba County Water Agency, Department of Financial Services at 1220 F Street, Marysville, CA 95901.

NOTES TO THE FINANCIAL STATEMENTS

**YUBA COUNTY WATER AGENCY
STATEMENTS OF NET POSITION
June 30, 2016 and 2015**

	2016	2015
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 58,517,574	\$ 56,158,805
Receivables		
Accounts receivable	5,052,223	571,323
Taxes and interest receivable	117,470	91,453
Due from other governments	550,894	931,887
Prepaid expenses and other current assets	331,567	290,588
Total Current Assets	64,569,728	58,044,056
Noncurrent Assets:		
Loans receivable from other governments	7,790,660	5,419,995
OPEB asset	155,845	358,000
Capital Assets:		
Non-depreciable	40,264,591	41,919,561
Depreciable, net	158,832,962	146,309,508
Total Capital Assets, Net	199,097,553	188,229,069
Total Noncurrent Assets	207,044,058	194,007,064
Total Assets	271,613,786	252,051,120
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension plan	2,280,393	548,810
Total Deferred Outflows of Resources	2,280,393	548,810
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and other liabilities	3,049,564	3,936,376
Salaries and benefits payable	42,765	199,117
Accrued compensated absences	880,256	734,558
Due to other governments	692,849	344,018
Deposits payable	585,233	534,967
Unearned revenue - current	3,918,442	3,862,500
Total Current Liabilities	9,169,109	9,611,536
Noncurrent Liabilities:		
Unearned revenue - noncurrent	20,000,000	26,312,876
Net pension liability	2,910,127	2,942,238
Total Noncurrent Liabilities	22,910,127	29,255,114
Total Liabilities	32,079,236	38,866,650
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension plan	553,966	997,337
Total Deferred Inflows Of Resources	553,966	997,337
<u>NET POSITION</u>		
Net investment in capital assets	199,097,553	188,229,069
Unrestricted	42,163,424	24,506,874
Total Net Position	\$ 241,260,977	\$ 212,735,943

YUBA COUNTY WATER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For The Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Sale of electrical energy	\$ 28,346,203	\$ 14,763,601
Water sales	20,600,456	9,588,078
Total Operating Revenues	48,946,659	24,351,679
Operating Expenses		
Hydropower generation	3,295,138	2,961,427
Administration and general	8,014,351	6,337,276
Maintenance	2,236,326	3,625,202
Depreciation and amortization	5,323,763	4,875,299
Total Operating Expenses	18,869,578	17,799,204
Net Income From Operations	30,077,081	6,552,475
Nonoperating Revenues (Expenses)		
Property taxes	449,660	430,326
Interest income	767,001	457,997
Rental income	24,000	24,000
Grants and reimbursements	888,550	1,113,077
Miscellaneous income (expenses)	6,288	8,763
Contributions to maintenance	2,859,253	
Recreation and camping fees	289,445	262,649
Gain (loss) on disposal of capital assets		(269,501)
General administration	(5,128,679)	(3,795,033)
Recreation and irrigation	(1,618,970)	(1,428,697)
Special projects expense	(1,793,187)	(1,314,028)
Total Nonoperating Revenues (Expenses)	(3,256,639)	(4,510,447)
Income (loss) before capital contribution	26,820,442	2,042,028
Capital Contributions		
Capital contributions	1,704,592	230,265
Total Capital Contributions	1,704,592	230,265
Change in Net Position	28,525,034	2,272,293
Net Position, Beginning of Year	212,735,943	210,463,650
Net Position, End of Year	\$ 241,260,977	\$ 212,735,943

**YUBA COUNTY WATER AGENCY
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Cash receipts from customers	\$ 38,778,344	\$ 42,685,035
Cash paid to suppliers for goods and services	(5,472,242)	(3,966,127)
Cash paid to employees	(10,668,097)	(7,745,961)
Net Cash Provided (Used) By Operating Activities	<u>22,638,005</u>	<u>30,972,947</u>
Cash Flows From Noncapital Financing Activities:		
Payments on loans receivable	276,438	176,053
Loans made to other agencies	(2,647,103)	(189,191)
Rents received	24,000	24,000
Operating grants and reimbursements	4,128,796	1,164,428
Taxes received	449,660	430,326
Miscellaneous income (expense)	6,288	8,763
Recreation and camping fees	289,445	262,649
General administration expenses	(5,128,679)	(3,795,033)
Recreation and other expenses	(1,618,970)	(1,428,697)
Special program expenses	(1,793,187)	(1,314,028)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(6,013,312)</u>	<u>(4,660,730)</u>
Cash Flows From Capital and Related Financing Activities:		
Purchase of capital assets	(16,192,247)	(10,191,071)
Proceeds from disposal of capital assets		326,490
Capital contributions received	1,185,339	
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(15,006,908)</u>	<u>(9,864,581)</u>
Cash Flows From Investing Activities:		
Interest received	740,984	517,409
Net Cash Provided (Used) By Investing Activities	<u>740,984</u>	<u>517,409</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,358,769	16,965,045
Cash and Cash Equivalents - Beginning of Year	<u>56,158,805</u>	<u>39,193,760</u>
Cash and Cash Equivalents - End of Year	<u>\$ 58,517,574</u>	<u>\$ 56,158,805</u>
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	<u>\$ 58,517,574</u>	<u>\$ 56,158,805</u>
Total Cash and Cash Equivalents	<u>\$ 58,517,574</u>	<u>\$ 56,158,805</u>

(Continued)

**YUBA COUNTY WATER AGENCY
STATEMENTS OF CASH FLOWS (CONTINUED)
For The Years Ended June 30, 2016 and 2015**

	2016	2015
Reconciliation of Net Income from Operations to Net Cash Provided (Used) By Operating Activities:		
Net income from operations	\$ 30,077,081	\$ 6,552,475
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	5,323,763	4,875,299
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(3,961,647)	(330,270)
Decrease (increase) in prepaid expenses and other current assets	(40,979)	281,895
Decrease (increase) in OPEB asset	202,155	
Increase (decrease) in accounts payable and other liabilities	(886,812)	1,017,882
Increase (decrease) in salaries and benefits payable	(156,352)	493,753
Increase (decrease) in accrued compensated absences	145,698	58,835
Increase (decrease) in due to other governments	348,831	348,362
Increase (decrease) in deposits payable	50,266	534,967
Increase (decrease) in unearned revenue	(6,256,934)	17,780,297
Increase (decrease) in net pension liability and related deferred inflows and outflows	(2,207,065)	(640,548)
	\$ 22,638,005	\$ 30,972,947
Net Cash Provided (Used) By Operating Activities		
Supplemental Disclosure of Cash Flow Information:		
Noncash Investing, Capital, and Financing Activities:		
Change in fair value of investments	\$ (176,471)	\$ (14,798)
Noncash capital contributions	\$ 519,253	\$ 230,265

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Established in 1959 by an act of the California State Legislature and headquartered in historic Marysville, California, Yuba County Water Agency (Agency) is a public agency governed by a seven member Board of Directors comprised of the five members of the Yuba County Board of Supervisors and two members elected at large. The primary functions of the Agency are development and sale of hydroelectric power, flood control, fisheries enhancement, recreation, conservation, storage of water, and wholesale of water to member districts.

A. Financial Reporting Entity

The Agency's financial statements include all financial transactions for which the Agency is financially accountable. A primary government is financially accountable if it appoints a majority of a component unit's governing body and either it has the ability to impose its will on the component unit or there is the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Based on these criteria, the Agency has determined that it has no component units. However, the Agency is a component unit of the County of Yuba, California due to the County appointing a majority of the Agency's Board of Directors and the other criteria being met. As a result, the financial activities of the Agency are included in the financial statements of the County of Yuba, which is available at the Auditor-Controller's office located at 915 8th Street, Suite 105, Marysville, California 95901 or at www.co.yuba.ca.us/Departments/Auditor-Controller.

The Agency is a member of Yuba Levee Finance Authority, which is a joint powers authority with the Agency and County of Yuba as members that issued debt for levee improvements in Yuba County. The Yuba Levee Finance Authority is reported as a blended component unit in the County of Yuba's financial statements. Yuba Levee Finance Authority issued debt that is disclosed in Note 16 as conduit debt supported by the Authority through installment sale payments. The Yuba Levee Finance Authority does not issue separate financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements of 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 Agency applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting. The more significant of the District's accounting principles are described below.

The Agency's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of timing of the related cash flows. Property taxes are recognized as revenues in the year they are levied. Property taxes attach an enforceable lien on property as of January 1. Taxes are levied on July 1, and are payable in two installments on December 10 and April 10. The County of Yuba bills and collects property taxes and remits them to the Agency in installments during the year. Grants and similar items are recognized as revenue as soon as all eligibility requirements, imposed by the provider, have been met.

The financial activities of the Agency are accounted for as an enterprise fund. Enterprise funds are used to account for operations which 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 public on a continuing basis be financed or recovered primarily through user charges.

To enhance accountability, the Agency's enterprise fund consists of the following units:

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- General Fund
- Operation and Maintenance Fund
- General Fund Hydro Fund
- Hydroelectric Utility Fund
- General Fund Power Systems Fund
- Health RA Fund

Inter-unit balances have been eliminated from the statements of net position and statements of revenues, expenses and changes in net position.

The Agency distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Agency. Operating revenues consist primarily of sales of electric energy and water sales. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. The Agency considers all revenues and expenses not related to sales of electric energy and water sales to be nonoperating revenues and expenses, including flood control, recreation and special projects revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Position

1) Cash and Cash Equivalents

For purposes of reporting in the statement of cash flows, the Agency considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

See Note 2 for additional information about the Agency's cash and investments.

2) Accounts Receivable and Allowance for Doubtful Accounts

An allowance for doubtful accounts has not been provided because, in the opinion of management, receivable balances are fully collectible.

3) Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

4) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the Agency's financial statements. Capital assets are defined by the Agency as assets with an initial individual cost of \$10,000 and an estimated useful life in excess of one year.

Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of an asset, or materially extend asset lives, are not capitalized. The cost of assets sold or retired is eliminated

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4) Capital Assets (Continued)

from the capital asset accounts and a gain or loss on disposal is recognized. Fully depreciated assets remain in the accounts until such assets are no longer in service.

Depreciation has been provided over the estimated useful lives using the straight-line method over the following estimated useful lives:

Description	Estimated Life
Facilities and improvements	25 - 50 years
Buildings and structures	40 years
Equipment and furniture	2 - 10 years

Expenses incurred for construction projects and major repairs and betterments are accumulated and, when projects are complete, are capitalized and subsequently depreciated over the project's estimated useful life. The Agency did not incur any construction period interest for the fiscal years ended June 30, 2016 or 2015.

5) Compensated Absences

Employees are paid for 100% of their accumulated vacation upon retirement or other termination. In addition, 45% of the sick leave benefits are paid to employees with ten or more years of service upon retirement or termination up to a maximum accrual of 1,040 hours. The Agency has accrued a liability for vacation and sick leave, which has been earned, but not taken, by Agency employees. This liability is recognized when incurred.

6) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources until that time.

Deferred inflows and outflows of resources include amounts deferred for the Agency's pension plan under GASB Statement No. 68 as described in Note 8.

7) Net Position

Net position is segregated into the net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – The net investment in capital assets represents capital assets, net of accumulated depreciation and amortization and long-term liabilities that are attributable to the acquisition, construction or improvement of these assets.

Restricted – Restricted net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grants, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Agency had no restrictions of net position.

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted – Designations of unrestricted net position are 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. The designations included the following at June 30:

	2016	2015
Capital facilities - recreation	\$ 73,811	\$ 56,054
Ground water	640,214	589,490
Relicensing	466,967	1,132,788
Fishery enhancement	1,636,908	1,063,724
Project development	27,839,945	13,459,826
Future operations & administration	11,316,535	8,097,654
River management	189,044	107,338
Subtotal - Designated	42,163,424	24,506,874
Undesignated		
Total Unrestricted Net Position	\$ 42,163,424	\$ 24,506,874

- Designated for Capital Facilities - Recreation – to segregate a portion of net position for fees collected for capital facilities projects in the recreation area.
- Designated for Ground Water – to segregate a portion of net position for the monitoring of ground water.
- Designated for Relicensing – to segregate a portion of net position designated for the future relicensing costs for the Agency.
- Designated for Fishery Enhancement – to segregate a portion of net position designated for fish monitoring and habitat improvements.
- Designated for Project Development – to segregate a portion of net position designated for water resources and flood control related studies and capital projects.
- Designated for Future Operations & Administration – to segregate a portion of net position designated for future general and administrative operations.
- Designated for River Management – to segregate a portion of net position designated for Accord River Management Team directed projects.

8) Use of Estimates

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

9. Pension Plan

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

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

10. Reclassifications

Certain reclassifications were made to the 2015 financial statements to conform to the current presentation, including separately reporting the OPEB asset, reclassifying certain amounts from accounts payable to salaries and benefits payable and due to other governments and the reclassification of unrecognized water transfer revenues from deferred inflows of resources to current and noncurrent unearned revenue. These reclassifications had no effect on previously reported net position or change in net position.

11. New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*." This Statement replaces the requirements of GASB Statement No. 45 and requires governments responsible for OPEB liabilities related to their own employees to report a net OPEB liability on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for periods beginning after June 15, 2017.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for periods beginning after June 15, 2015, and should be applied retroactively.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria allowing investment pools meeting certain maturity, quality, diversification and other criteria to measure its investments at amortized cost for financial reporting purposes rather than at fair value and allowing the pool's users to measure their investment in the pool at amortized cost. This Statement is effective for periods beginning after June 15, 2015 with some provisions effective for periods beginning after December 15, 2015.

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies certain accounting and reporting issues related to pension plans, including the presentation of payroll related measures in required supplementary information, clarifies the use of the term *deviation* for the selection of assumptions, and clarifies the classification of employer-paid member contributions and the period in which they should be recognized. The requirements of this Statement are effective for periods beginning after June 15, 2015, and should be applied retroactively.

The Agency will fully analyze the impact of these new Statements prior to the effective dates listed above.

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents, at fair value, consisted of the following at June 30:

	2016	2015
Unrestricted cash and cash equivalents:		
Cash on hand	\$ 525	\$ 525
Deposits in financial institutions	7,349,215	3,703,870
Cash and investments with County of Yuba Treasurer	51,167,834	52,454,410
Total cash and cash equivalents	\$ 58,517,574	\$ 56,158,805

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 the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

At June 30, 2016 and 2015, the carrying amount of the Agency’s deposits was \$7,349,215 and \$3,703,870, and the balances in financial institutions were \$8,124,092 and \$3,781,690 respectively. Of the balances in financial institutions at June 30, 2016 and 2015, \$250,000 and \$285,324 was covered by federal depository insurance and the remaining amounts were collateralized as required by state law (Government Code §53630) by the pledging financial institution with assets held in a common pool for the Agency and other governmental agencies. State law requires that the market value of the common pool of collateral be equal to or greater than 110% of all public deposits with the pledging financial institution if governmental securities are used, or 150% if mortgages are used, as collateral. The collateral is not held by or in the name of the Agency.

The Agency’s investments in the investment pool maintained by the County of Yuba, California’s (the County) Treasurer are stated at fair value. The Agency maintains a significant portion of its cash in County’s cash and investment pool. The County apportions interest and changes in fair value to the Agency’s funds quarterly based upon average cash balances. Investments held in the County’s cash and investment pool are available on demand to the Agency and are stated at fair value. Information regarding categorization of investments can be found in the County’s financial statements at www.co.yuba.ca.us under the Auditor-Controller Department page. The County’s cash and investment pool is not registered with the Securities and Exchange Commission as an investment company and is in accordance with the applicable laws and regulations of the State of California. The fair value of the Agency’s position in the pool is the same as the value of its pool shares. The County has not provided or obtained any legally binding guarantees to support the value of the accounts.

Investment policy – Pursuant to Board Resolutions 2016-05 and 2015-07, the Agency reaffirmed the County’s investment policy as the Agency’s investment policy. Under the County’s policy, the permissible investments for the years ended June 30, 2016 and 2015, included the following instruments:

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 CASH AND CASH EQUIVALENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Federal Agency Obligations	5 Years	None	None
U.S. Treasury Bills	5 Years	None	None
State of California Obligations	5 Years	None	None
Local Agency Bonds and Obligations	5 Years	None	None
Banker's Acceptances	180 Days	40%	30%
Commercial Paper - Selected Agencies	270 Days	40%	10%
Negotiable Certificates of Deposit	5 Years	30%	None
Non-negotiable Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Reverse Repurchase Agreements	92 Days	20%	None
Medium-Term Corporate Notes	5 Years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
California Asset Management Program (CAMP)	N/A	None	None

Investments authorized by debt agreements – Investments held by a bond fiscal agent (trustee) are governed by the provisions of the debt indenture agreement rather than the provisions of the Agency's investment policy of the California Government Code. The Agency did not have any investments that were invested according to the provisions of debt indenture agreements at June 30, 2016 and 2015.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value 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. As of June 30, 2016 and 2015, the weighted average maturity of the investments in the County's investment pool was 276 and 456 days, respectively.

Credit risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County pool is not rated, but specific credit risk ratings for individual investments held for the Agency by the County are provided in the County's financial statements.

Concentration of credit risk – The Agency does not have a policy that limits the amount that can be invested in any one issuer beyond what is specified in the California Government Code. A majority of the Agency's investments are held with the County pool where the concentration of credit risk is not determinable.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2016	2015
Sales of electric energy receivable	\$ 3,398,680	
Due from Pacific Gas & Electric	585,376	\$ 12,179
Capital contributions receivable	519,253	
Irrigation and gauging receivables	456,807	476,405
Due from marina operations	83,136	82,739
Other	8,971	
TOTALS	\$ 5,052,223	\$ 571,323

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4 LOANS RECEIVABLE FROM OTHER GOVERNMENTAL AGENCIES

Loans receivable activity consisted of the following during the years ended June 30:

	Balance July 1, 2015	Additions	Payments	Balance June 30, 2016	Interest Receivable
Yuba County RDA/County					
Of Yuba as Successor Agency	\$ 897,021	\$ 5,674		\$ 902,695	\$ 163,753
North Yuba Water District	380,139	14,662	\$ (17,000)	377,801	13,379
Cordua Irrigation District	99,777	3,993	(4,000)	99,770	222
Dry Creek Mutual Water Company	1,438,871	10,346	(95,700)	1,353,517	266
City of Marysville Levee District	2,511,195	96,463		2,607,658	202,677
Camptonville Community Services District	92,992	666,292	(159,738)	599,546	5,295
Yuba County TRLIA Bond Loan		1,849,673		1,849,673	
TOTALS	\$ 5,419,995	\$ 2,647,103	\$ (276,438)	\$ 7,790,660	\$ 385,592

	Balance July 1, 2014	Additions	Payments	Balance June 30, 2015	Interest Receivable
Yuba County RDA/County					
Of Yuba as Successor Agency	\$ 937,455		\$ (40,434)	\$ 897,021	\$ 158,079
North Yuba Water District	432,031		(51,892)	380,139	2,360
Cordua Irrigation District	99,794		(17)	99,777	229
Dry Creek Mutual Water Company	1,522,581		(83,710)	1,438,871	464
City of Marysville Levee District	2,414,996	\$ 96,199		2,511,195	106,215
Camptonville Community Services District		92,992		92,992	1,468
TOTALS	\$ 5,406,857	\$ 189,191	\$ (176,053)	\$ 5,419,995	\$ 268,815

Each loan accrues interest at a rate established by the Agency as agreed to in the originating loan agreement. The amounts reported above include interest receivable. Typically, the interest rate is based on an average of the interest rate paid by the County of Yuba, California Treasurer on the investment pool for the preceding 12 months. The interest rates ranged from 0.719% to 4.00% and 0.768% to 4.00% at June 30, 2016 and 2015, respectively.

In September 2015, the Board of Directors approved a deferral of the required North Yuba Water District loan payment until September 2016. North Yuba Water District requested the payment be further deferred in October 2016.

Regarding the loan to the Yuba County Redevelopment Agency, the state Redevelopment Dissolution Act (AB 1X 26) dissolved the Redevelopment Agency on February 1, 2012. On March 27, 2012, the Yuba County Board of Supervisors adopted Resolution No. 2012-20 designating the Board of Supervisors of the County of Yuba to serve as the Successor Agency of the Yuba County Redevelopment Agency (Successor Agency). As a result of this legislation, the Successor Agency was required to obtain formal approval for the recognition of the obligation to repay outstanding debts. On May 27, 2012, the California Department of Finance issued a letter to the successor agency approving the obligation for repayment of the loan made by Yuba County Water Agency to the Yuba County Redevelopment Agency.

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5 CAPITAL ASSETS

Capital asset activity consisted of the following during the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
CAPITAL ASSETS NOT BEING DEPRECIATED:					
General Fund:					
Land and land rights	\$ 1,449				\$ 1,449
Canals	4,605,454				4,605,454
Construction in progress					
FERC relicensing	26,914,495	\$ 3,187,533			30,102,028
Other	107,855	159,520			267,375
Total General Fund	31,629,253	3,347,053			34,976,306
Hydroelectric Utility Fund:					
Water rights	85,835				85,835
Land and land rights	2,841,991			\$ 79,948	2,921,939
Construction in progress	3,370,409	7,857,257		(9,996,332)	1,231,334
Total Hydroelectric Utility Fund	6,298,235	7,857,257		(9,916,384)	4,239,108
General Fund Power Systems:					
Construction in progress	3,992,073	773,581		(3,716,477)	1,049,177
Total General Fund Power Systems	3,992,073	773,581		(3,716,477)	1,049,177
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	41,919,561	11,977,891		(13,632,861)	40,264,591
CAPITAL ASSETS BEING DEPRECIATED:					
General Fund:					
Recreation facilities	1,516,201				1,516,201
General plant	4,563,057	74,135	\$ (32,013)		4,605,179
Irrigation canals	17,443,908	43,744			17,487,652
Total General Fund	23,523,166	117,879	(32,013)		23,609,032
General Fund Hydro Fund:					
Hydraulic production	396,117				396,117
Hydroelectric Utility Fund:					
Hydraulic production	222,400,212			4,551,924	226,952,136
Electric plant acquisition	4,485,248				4,485,248
Transmission equipment	1,859,381			4,172,612	6,031,993
General plant	7,962,706	118,867		1,191,848	9,273,421
Intangible assets	248,292				248,292
Total Hydroelectric Utility Fund	236,955,839	118,867		9,916,384	246,991,090
General Fund Power Systems:					
General plant	33,272	1,603,129		2,257,785	3,894,186
Hydraulic production		216,727		128,767	345,494
Transmission equipment		2,157,754		1,329,925	3,487,679
Total General Fund Power Systems	33,272	3,977,610		3,716,477	7,727,359
TOTAL CAPITAL ASSETS BEING DEPRECIATED	260,908,394	4,214,356	(32,013)	13,632,861	278,723,598

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5 CAPITAL ASSETS (Continued)

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
ACCUMULATED DEPRECIATION AND AMORTIZATION:					
General Fund:					
Recreation facilities	\$ (1,159,761)	\$ (82,984)			\$ (1,242,745)
General plant	(1,691,398)	(364,121)	\$ 32,013		(2,023,506)
Irrigation canals	(1,685,909)	(843,863)			(2,529,772)
Total General Fund	(4,537,068)	(1,290,968)	32,013		(5,796,023)
General Fund Hydro Fund:					
Hydraulic production	(379,114)	36,921			(342,193)
Hydroelectric Utility Fund:					
Hydraulic production	(97,943,559)	(3,429,951)			(101,373,510)
Electric plant acquisition	(4,385,880)	(97,464)			(4,483,344)
Transmission equipment	(1,359,895)	(27,220)			(1,387,115)
General plant	(5,751,324)	(490,558)			(6,241,882)
Intangible assets	(230,956)	(5,249)			(236,205)
Total Hydroelectric Utility Fund	(109,671,614)	(4,050,442)			(113,722,056)
General Fund Power Systems:					
General plant	(11,090)	(11,090)			(22,180)
Hydraulic production		(1,139)			(1,139)
Transmission equipment		(7,045)			(7,045)
Total General Fund Power Systems	(11,090)	(19,274)			(30,364)
TOTAL ACCUMULATED DEPRECIATION	(114,598,886)	(5,323,763)	32,013		(119,890,636)
Total capital assets being depreciated, net	146,309,508	(1,109,407)	-	\$ 13,632,861	158,832,962
CAPITAL ASSETS, NET	\$ 188,229,069	\$ 10,868,484	\$ -	\$ -	\$ 199,097,553

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5 CAPITAL ASSETS (Continued)

Capital asset activity consisted of the following during the year ended June 30, 2015:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
General Fund:				
Land and land rights	\$ 1,449			\$ 1,449
Canals	4,605,454			4,605,454
Construction in progress	24,434,751	\$ 2,844,060	\$ (256,461)	27,022,350
Total General Fund	29,041,654	2,844,060	(256,461)	31,629,253
Hydroelectric Utility Fund:				
Water rights	85,835			85,835
Land and land rights	2,841,991			2,841,991
Construction in progress	4,461,036	3,035,699	(4,126,326)	3,370,409
Total Hydroelectric Utility Fund	7,388,862	3,035,699	(4,126,326)	6,298,235
General Fund Power Systems:				
Construction in progress	84,195	3,907,878		3,992,073
Total General Fund Power Systems	84,195	3,907,878		3,992,073
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	36,514,711	9,787,637	(4,382,787)	41,919,561
CAPITAL ASSETS BEING DEPRECIATED:				
General Fund:				
Recreation facilities	1,516,201			1,516,201
General plant	4,239,021	347,528	(23,492)	4,563,057
Irrigation canals	17,213,643	230,265		17,443,908
Total General Fund	22,968,865	577,793	(23,492)	23,523,166
General Fund Hydro Fund:				
Hydraulic production	2,807,412		(2,411,295)	396,117
Hydroelectric Utility Fund:				
Hydraulic production	219,322,472	3,077,740		222,400,212
Electric plant acquisition	4,485,248			4,485,248
Transmission equipment	1,411,076	448,305		1,859,381
General plant	7,050,058	912,648		7,962,706
Intangible assets	248,292			248,292
Total Hydroelectric Utility Fund	232,517,146	4,438,693		236,955,839
General Fund Power Systems:				
General plant	33,272			33,272
Total General Fund Power Systems	33,272			33,272
TOTAL CAPITAL ASSETS BEING DEPRECIATED	258,326,695	5,016,486	(2,434,787)	260,908,394

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 5 CAPITAL ASSETS (Continued)

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
ACCUMULATED DEPRECIATION AND AMORTIZATION:				
General Fund:				
Recreation facilities	\$ (1,076,777)	\$ (82,984)		\$ (1,159,761)
General plant	(1,408,547)	(306,343)	\$ 23,492	(1,691,398)
Irrigation canals	(1,115,082)	(570,827)		(1,685,909)
Total General Fund	<u>(3,600,406)</u>	<u>(960,154)</u>	<u>23,492</u>	<u>(4,537,068)</u>
General Fund Hydro Fund:				
Hydraulic production	(2,154,526)	(39,892)	1,815,304	(379,114)
Hydroelectric Utility Fund:				
Hydraulic production	(94,547,100)	(3,396,459)		(97,943,559)
Electric plant acquisition	(4,288,416)	(97,464)		(4,385,880)
Transmission equipment	(1,345,722)	(14,173)		(1,359,895)
General plant	(5,395,257)	(356,067)		(5,751,324)
Intangible assets	(230,956)			(230,956)
Total Hydroelectric Utility Fund	<u>(105,807,451)</u>	<u>(3,864,163)</u>		<u>(109,671,614)</u>
General Fund Power Systems:				
General plant		(11,090)		(11,090)
TOTAL ACCUMULATED DEPRECIATION	<u>(111,562,383)</u>	<u>(4,875,299)</u>	<u>1,838,796</u>	<u>(114,598,886)</u>
Total capital assets being depreciated, net	146,764,312	141,187	(595,991)	146,309,508
CAPITAL ASSETS, NET	<u>\$ 183,279,023</u>	<u>\$ 9,928,824</u>	<u>\$ (4,978,778)</u>	<u>\$ 188,229,069</u>

East-side Canal Extension (Yuba Wheatland Canal Project) – The East-side Canal Extension (Yuba Wheatland Canal Project) was the result of a contractual arrangement between the Agency and Wheatland Water District (WWD). The original agreement was executed on January 27, 2004 and was subsequently amended on February 13, 2007 and again on May 25, 2010. The agreement and subsequent amendments contained cost allocation, ownership, and payment provisions. During the year ended June 30, 2014, the Agency capitalized \$16,613,796 in costs attributable to the project and began depreciation.

On September 5, 2014, the Agency and WWD entered into an agreement whereby WWD will reimburse the Agency \$1,394,080 for project costs related to improvements made within the WWD boundaries. The parties anticipate that this amount will be repaid over a thirty (30) year period with annual principal and interest payments due no later than each December 15th. WWD does have the option of reimbursing these costs over a shorter time period. Interest on the unpaid reimbursement balance will be at a rate equal to the average rate of return earned by the Agency on funds invested with the Treasurer of the County of Yuba. Under the agreement, WWD did agree to pay retroactive interest to December 31, 2010. Upon full repayment by WWD, title to certain improvements will be transferred from the Agency to WWD. As of June 30, 2016, the undepreciated cost of these improvements totaled \$7,881,523.

During the year ended June 30, 2016 and 2015, WWD repaid the Agency \$8,000 and \$612,000, including interest and principal. As of June 30, 2016 and 2015, the unreimbursed amount due to the Agency totaled \$858,986 and \$860,378 including accrued interest totaling \$139 and \$1,265, respectively. Interest paid during the year ended June 30, 2016 and 2015, amounted to \$7,734 and \$77,033. At June 30, 2016 and 2015, the Agency reported the cumulative principal payments received of \$535,233 and \$534,967 as a deposit liability in the accompanying financial statements under GASB Statement No. 62 because title to the facilities will not be transferred until the loan is fully collected.

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 6 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the fiscal years ended June 30:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due within one year
Net pension liability	\$ 2,942,238	\$ 1,252,583	\$ (1,284,694)	\$ 2,910,127	
Total Long-Term Liabilities	<u>\$ 2,942,238</u>	<u>\$ 1,252,583</u>	<u>\$ (1,284,694)</u>	<u>\$ 2,910,127</u>	<u>\$ -</u>

NOTE 7 UNEARNED REVENUE

During the year ended June 30, 2008, the Agency entered into a water transfer agreement with the Department of Water Resources whereby \$30,900,000 was paid up front for the transfer of 480,000 acre feet of water over a period of eight (8) years with 60,000 acre feet of water being transferred annually. The revenue recognized as the water is actually transferred and the remaining balance of transfer proceeds is reported as unearned revenue until the related water is transferred. Unearned water transfer revenue under this agreement at June 30, 2016 and 2015 was \$3,918,442 and \$7,725,000, respectively.

On December 5, 2014, Amendment No. 5 to the water transfer agreement was executed. This amendment extended the water transfer period through December 31, 2025. As a result of this amendment, the Agency received a \$20 million prepayment toward future water transfers that will be earned using fluctuating rates per acre foot specified in the agreement ranging from \$50 to \$350 per acre foot that are based on whether the water is transferred in years classified as wet to consecutive dry or critical years. At June 30, 2016 and 2015, \$23,918,442 and \$27,725,000 of unrecognized water transfer revenue is reported as unearned revenue in the statement of net position.

The Agency also recorded unearned revenue for two months of electric operations and maintenance expenses funded by PG&E in advance of expenses being incurred through the termination of the PG&E contract in April 2015. The amount was earned and was recognized during the year ended June 30, 2016 due to certain contract termination adjustments owed to the Agency.

The following is a summary of unearned revenue balances at June 30:

	2016	2015
Water transfer accord	\$ 23,918,442	\$ 27,725,000
Electric expenses		2,450,376
Total unearned revenue outstanding	<u>23,918,442</u>	<u>30,175,376</u>
Less: Current Portion	<u>(3,918,442)</u>	<u>(3,862,500)</u>
Noncurrent Portion	<u>\$ 20,000,000</u>	<u>\$ 26,312,876</u>

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 8 DEFINED BENEFIT PENSION PLAN

A. General Information About Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the Agency’s cost-sharing multiple employer defined benefit pension plan (Plan), which is administered by the California Public Employees’ Retirement System (CalPERS). The Agency participates in the Miscellaneous Risk Pool and two rate plans, the Classic Miscellaneous Rate Plan and the PEPRA Miscellaneous Rate Plan. Benefit provisions under the Plan are established by State statute and local government 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.

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 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit and 1959 survivor benefit, level 3. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law. The Public Employees’ Pension Reform Act of 2013 (PEPRA) requires new benefits and member contributions as defined by PEPRA, that are hired after January 1, 2013. Consequently, the Classic Miscellaneous Rate Plan is closed to new members that were not CalPERS eligible participants as of December 31, 2012.

The Plan’s provisions and benefits in effect at June 30 are summarized as follows:

	2016		2015	
	Prior to January 1, 2013	On or After January 1, 2013	Prior to January 1, 2013	On or After January 1, 2013
Hire date				
Benefit formula	2.0% @ 55	2% @ 62	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-63	52-67	50-63	52-67
Monthly benefits as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%	7.00%	6.25%
Required employer contribution rates	8.512%	6.237%	12.988%	6.25%

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

A. General Information About Pension Plan (Continued)

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 is 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 June 30, the contributions recognized as part of pension expense for the Plan was as follows:

	2016	2015
Contributions - employer	\$ 457,092	\$ 548,810

In addition to the contractually required contributions above, the Agency made payments of \$1,749,511 during the year ended June 30, 2016, which is reported as part of deferred outflows of resources at June 30, 2016, and an additional \$833,222 in July 2016. CalPERS estimated these amounts would be sufficient to eliminate the Agency’s unfunded pension liability based on the most recent actuarial valuation.

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

As of June 30, 2016 and 2015, the Agency reported a net pension liability of \$2,910,127 and \$2,942,238, respectively, for its share of the net pension liability of the Plan. The Agency’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan for the years ended June 30, 2016 and 2015 was measured as of June 30, 2015 and 2014, and the total pension liability for each rate plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013, rolled forward to June 30, 2015 and 2014, 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. The Agency’s proportionate share of the net pension liability for the Plan as of June 30 as compared to the prior year, were as follows:

	2016	2015
Proportion - June 30, 2015	0.11905%	
Proportion - June 30, 2016	0.10608%	
Change - Increase (Decrease)	-0.01297%	
Proportion - June 30, 2014		0.12287%
Proportion - June 30, 2015		0.11905%
Change - Increase (Decrease)		-0.00382%

During the years ended June 30, 2016 and 2015, the Agency recognized pension (benefit) expense of \$(319,093) and \$356,791. At June 30, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$2,206,603		\$ 548,810	
Differences between actual and expected experience	35,250			
Changes in assumptions		\$ (333,495)		
Differences between the employer's contributions and the employer's proportionate share of contributions		(53,285)		
Change in employer's proportion	38,540			\$ (59,517)
Net differences between projected and actual earnings on plan investments		(167,186)		(937,820)
Total	<u>\$ 2,280,393</u>	<u>\$ (553,966)</u>	<u>\$ 548,810</u>	<u>\$ (997,337)</u>

The \$2,206,603 and \$548,810 at June 30, 2016 and 2015, respectively, 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 subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows for the year ended June 30:

Year Ending June 30:	2016	2015
2016		\$ (255,711)
2017	\$ (246,335)	(255,711)
2018	(242,084)	(251,457)
2019	(205,457)	(234,458)
2020	213,700	
	<u>\$ (480,176)</u>	<u>\$ (997,337)</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 and 2013, actuarial valuations used during the years ended June 30 were determined using the following actuarial assumptions:

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

	2016	2015
Valuation date	June 30, 2014	June 30, 2013
Measurement date	June 30, 2015	June 30, 2014
Actuarial cost method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.00%
Projected salary increase ⁽¹⁾	3.3% - 14.2%	3.3% - 14.2%
Investment rate of return ⁽²⁾	7.65%	7.50%
Mortality ⁽³⁾	CalPERS Table	

⁽¹⁾ Depending on age, service and type of employment.

⁽²⁾ Net of pension plan investment expenses in 2015, including inflation.

⁽³⁾ 20 years of mortality improvement - Society of Actuaries Scale BB.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 and 2013, valuations were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% in the valuation as of June 30, 2014 used for the year ended June 30, 2016 and 7.50% in the valuation as of June 30, 2013 used for the year ended June 30, 2015. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the 7.65% and 7.50% discount rates used in the June 30, 2014 and 2013 valuations were adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate 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.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in the June 30, 2013 valuation was net of administrative expenses. Administrative expenses were assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach.

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

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

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

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

Asset Class	2016			2015		
	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global equity	51.0%	5.25%	5.71%	47.0%	5.25%	5.71%
Global fixed income	19.0%	0.99%	2.43%	19.0%	0.99%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%	6.0%	0.45%	3.36%
Private equity	10.0%	6.83%	6.95%	12.0%	6.83%	6.95%
Real estate	10.0%	4.50%	5.13%	11.0%	4.50%	5.13%
Infrastructure and forestland	2.0%	4.50%	5.09%	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%	2.0%	(0.55)%	(1.05)%
	100.0%			100.0%		

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

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

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 each Plan, calculated using the discount rate for each 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:

	2016			2015		
	1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
Discount rate	6.65%	7.65%	8.65%	6.50%	7.50%	8.50%
Net pension liability	\$ 4,880,486	\$ 2,910,127	\$ 1,283,367	\$ 5,153,653	\$ 2,942,238	\$ 1,106,977

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 8 DEFINED BENEFIT PENSION PLAN (Continued)

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

Payables to the Pension Plan – There were no significant payables to the pension plan as of June 30, 2016 and 2015.

NOTE 9 DEFERRED COMPENSATION PLAN

In lieu of Social Security, the Agency also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan is administered by the ICMA Retirement Corporation. The plan, available to all regular employees at their option, permits participants to defer a portion of their salary until future years. The Agency contributes 7.65% of covered salaries for each employee who does not participate in the 401(a) plan below. For the fiscal year ended June 30, 2016, the Agency contributed \$269,897 and the employees contributed \$355,108 to the plan. During the year ended June 30, 2015, the Agency contributed \$205,168 and the employees contributed \$284,709 to the plan.

On December 17, 2002, the Agency established an IRC Section 401(a) account with the ICMA Retirement Corporation. The Agency selects optional benefits through state statute and agency resolutions. The Agency contributes 7.65% of covered salaries for each employee who does not participate in the 457 plan above. During the year ended June 30, 2016, the Agency contributed \$170,899, and the employees contributed \$137,108 to this plan. During the year ended June 30, 2015, the Agency contributed \$134,812, and the employees contributed \$111,666 to this plan.

NOTE 10 POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits, the Agency provides certain health care benefits for retired employees through CalPERS. Substantially all of the Agency’s regular employees may become eligible for those benefits if they reach normal retirement age while working for the Agency. At June 30, 2016 and 2015, thirteen retired employees/survivor dependents met those eligibility requirements.

Plan Description – The Yuba County Water Agency’s Retiree Healthcare Plan (the Plan) is an agent multiple-employer postemployment benefits plan administered by the California Public Employers’ Retiree Benefit Trust (CERBT) Fund. The Agency provides medical benefits to eligible retirees. Benefit provisions are established and may be amended by the Board of Directors, subject to the Agency’s labor agreements. Under the Plan, the Agency pays health insurance premiums for employees hired after 2007 with a maximum monthly benefit of \$1,500 (\$1,600 starting in 2017) with 10 years of Agency service and PEMHCA minimum benefits for employees hired after 2007 with less than 10 years of Agency service (\$125 per month in 2016 and \$128 per month in 2017).

On May 12, 2009, the Board approved a policy to pre-fund retiree health care benefits through contributions to the CERBT and authorized the agreement and election of the Agency to pre-fund other post-employment benefits through CalPERS. CERBT is a tax-qualified irrevocable trust organized under Internal Revenue Code Section 115 to administer retiree healthcare benefits and collectively invest plan assets of all trust members. CERBT issues publicly available financial statements according to GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, in aggregate with the other CERBT participating employers. CERBT financial statements can be obtained from the CalPERS website at www.calpers.ca.gov. Agency’s Plan does not issue separate financial statements.

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 10 POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Funding Policy – Future contribution requirements of plan members and the Agency will be established and amended as needed by the Agency’s Board of Directors. The required contribution will be based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the Board. Employees are not required to contribute to the plan. For fiscal years ended June 30, 2016 and 2015, the Agency contributed a total of \$280,845 and \$432,000, respectively.

Annual OPEB Cost and Net OPEB Obligation — The Agency’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The Agency is implementing GASB Statement No. 45 prospectively. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period of ten years. The ARC rate was 9.7% of projected annual covered payroll. The following table shows the components of the Agency’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Agency’s net OPEB obligation:

	2016	2015
Annual required contribution	\$ 281,000	\$ 272,000
Interest on net OPEB obligation	(33,000)	(44,000)
Adjustment to annual required contribution	235,000	369,000
Annual OPEB cost (expense)	483,000	597,000
Contributions made	(280,845)	(432,000)
Increase in net OPEB obligation	202,155	165,000
Net OPEB obligation (asset) - beginning of year	(358,000)	(523,000)
 Net OPEB obligation (asset) - end of year	 \$ (155,845)	 \$ (358,000)

The ARC was determined as part of a June 30, 2015, actuarial valuation. The Agency’s Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation as of June 30, 2016, were as follows:

Fiscal Year June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2014	\$ 812,000	45.32%	\$ (523,000)
June 30, 2015	597,000	72.36%	(358,000)
June 30, 2016	483,000	58.15%	(155,845)

Funded Status and Funding Process — The funded status of the liability as per the most recent actuarial valuation of June 30, 2015, was as follows:

	2016	2015
Actuarial accrued liability (AAL)	\$ 5,647,000	\$ 4,463,000
Actuarial value of plan assets	(5,839,000)	(4,461,000)
Unfunded actuarial accrued liability/(asset)	\$ (192,000)	\$ 2,000
Funded ratio (actuarial value of plan assets/AAL)	103.40%	99.96%
Covered payroll (active plan members)	\$ 3,937,000	\$ 3,813,000
UAAL/(asset) as a percentage of covered payroll	-4.88%	0.05%

YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 10 POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as other supplementary information following the notes to the financial statements presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2015, actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a 6.50% investment rate of return (net of administrative expenses), an annual healthcare cost trend rate of 7% to 7.2% initially (4.5% for PEMHCA), reduced by decrements to 5% after five years, payroll increases of 3.25%, and an inflation assumption of 3%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year open period. The unfunded actuarial accrued liability is being amortized over a level percentage of projected payroll over a ten year period on a closed basis.

NOTE 11 POWER PURCHASE CONTRACTS

All electric power generated by the Operations and Maintenance Fund was sold to the Pacific Gas and Electric Company (PG&E) under the terms of a contract dated May 13, 1966, and expired in 2016. For the power received, PG&E paid \$3,850,000 semi-annually for bond and interest and a variable amount for hydro operations. The Operation and Maintenance Fund received, from PG&E for operating expenses, a total of \$18,704,389 and \$14,479,668 during the years ended June 30, 2016 and 2015, respectively. Due to the termination of the PG&E contract, the Agency accrued a receivable for the estimated amount due from PG&E to settle all outstanding claims and recognized all unearned revenue during the year ended June 30, 2016. On September 22, 2015, the Agency Board of Directors approve approved two (2) power purchase agreements with Shell Energy of North America for sales of Colgate and Narrows 2 electric energy and related products. Sale of electric energy totaled \$11,720,010 under these agreements during the year ended June 30, 2016.

All electric power generated through the General Fund Hydro Fund is also sold to PG&E under the terms of two Standard Offer #4 Contracts dated May 7, 1984, and expiring in 2016 and 2019. For the power received, PG&E pays for the net energy output under the energy Payment Option 1 Forecasted Energy Prices of two megawatts for the Deadwood Power Plant, which was sold on October 21, 2014, and for the firm capacity of 130 kilowatts for the Mini-Hydro Power Plant. The General Fund Hydro Fund received payments totaling \$176,818 and \$283,933 for the fiscal years ended June 30, 2016 and 2015, respectively.

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 12 ECONOMIC DEPENDENCY

The Agency's operating revenues represent the sale of electric energy and water transfer revenues that are dependent upon the availability of water. A long-term reduction in available water to transfer or generate electric energy could have a significant impact on the Agency's financial condition.

NOTE 13 CONTINGENCIES

Western Water v. Yuba County Water Agency and Western Aggregates

The Agency was a defendant in the case *Western Water v. Yuba County Water Agency and Western Aggregates*. Western Water claimed the Agency breached an agreement entered into between the parties in 1991 and had an obligation to pay for water which was taken from an area commonly known as Yuba Goldfields. The court ruled in favor of the Agency and denied all of the plaintiff's claims. As a result, the Agency was awarded over one million dollars in attorney fees. The Appellate Court affirmed the lower court's ruling in September 2016. The Agency has not recognized revenue for the attorney fees awarded due to questions about the ability to collect the fees.

The Agency has filed a separate lawsuit against Western Water asserting Western Water violated the Uniform Fraudulent Transfer Act in an attempt to avoid paying the attorney fees awarded to the Agency. Western Water filed a Motion to Strike, which was denied. The ruling was appealed. The action was stayed pending outcome of the appeal affirmed in September 2016. The Agency is currently weighing its options about how to proceed.

Cordua Irrigation District v. Yuba County Water Agency

On September 17, 2015, Cordua Irrigation District (CID) filed a lawsuit against the Agency, alleging that the Agency's actions in not agreeing to and facilitating a proposed water transfer of water to certain State Water Project (SWP) contractors breached a water-supply contract between CID and the Agency, constituted a tortious interference with a contract between CID and those SWP contractors and violated certain rights claimed by CID. CID seeks at least \$4,500,000 in damages from the Agency. The Agency denies that it breached its contract with CID, interfered with any other contract to with CID was a party or violated any of CID's rights. The Agency intends to vigorously defend CID's lawsuit. An adverse decision could result in the Agency being required to pay significant damages to CID. The potential future outcome of this lawsuit cannot be determined as of the date of these financial statements and no contingent loss provision has been recorded.

Litigation

The Agency is a party to other claims and lawsuits arising in the ordinary course of business. The Agency's management and legal counsel are of the opinion that the ultimate liability, if any, arising from these claims will not have a material adverse impact on the financial position of the Agency.

Grant and Contractual Contingencies

Amounts received or receivable from grantor agencies and electric sales, as well as the receivable accrued in accordance with the termination of the PG&E contract, are subject to audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the Agency. The amount(s), if any, of expenditures that may be disallowed by these entities cannot be determined at this time, although the Agency expects such amounts, if any, to be immaterial.

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 14 RISK MANAGEMENT

The Agency is exposed to property and liability claims for which commercial insurance has been purchased. There have not been any significant reductions in insurance coverage compared to the prior year. Settlements have not exceeded the insurance coverage for the past three fiscal years.

NOTE 15 RELICENSING

The Agency has been working on the relicensing of its Power Projects as required by the Federal Energy Regulatory Commission (FERC). In connection with the relicensing, the Agency has incurred expenses, entered into service contracts, and established cash reserves to pay for anticipated costs. Costs incurred for the relicensing are being capitalized, in accordance with GASB Statement No. 51, and will be amortized over the life of the new license period once it has been issued by FERC. Total costs capitalized as of June 30, 2016 and 2015, amounted to \$30,102,028 and \$26,914,495, respectively. Total funds designated for the relicensing process, at June 30, 2016 and 2015, amounted to \$466,967 and \$1,132,788, respectively. The Agency submitted the final license application to FERC on April 28, 2014. The relicensing process will take several years to complete. The current FERC license expired on April 30, 2016 and the Agency is operating under an annual license that will be renewed until FERC issues a new license. While the total cost of the relicensing cannot be determined, the Agency anticipates it will have sufficient resources to complete the relicensing process.

NOTE 16 CONDUIT DEBT

On July 22, 2008, the Agency entered into a Joint Exercise of Powers Agreement with the County of Yuba, California, for the creation of the Yuba Levee Financing Authority (the Authority). The primary purpose of the agreement is to provide for financial assistance to facilitate improvements to the levee system in the County. On September 3, 2008, bonds totaling \$78,370,000 were issued. This issue consisted of the Revenue Bonds, 2008 Series A totaling \$64,175,000 and Taxable Revenue Bonds, 2008 Series B totaling \$14,195,000, which are the outstanding balances of the Bonds at June 30, 2016 and 2015 as no principal payments have been made. The Authority is reported as a blended component unit of the County, resulting in the County of Yuba reporting the Authority's Revenue Bonds as County debt.

As part of Official Statement for the Revenue Bonds, the Agency entered into an installment sale agreement whereby the Agency is required to fund 50% of the debt service payments. The Agency and County originally anticipated that levee impact fees collected would provide the necessary revenues to cover the debt service payments. However due to the housing market crash there has been little real estate development in the Plumas Lake area and levee impact fees have not been sufficient to service the debt. Beginning in the year ended June 30, 2016, it appears very unlikely that there will be enough levee impact fees collected to make the annual \$4 million in debt service payments in the near term and the Yuba Levee Financing Authority and the County of Yuba have requested that the Agency pay the debt service payments required to the extent not funded by levee impact fee revenue.

On October 30, 2014, the Agency entered into a debt service funding agreement with the Yuba Levee Finance Authority (Authority) and the County of Yuba (County) relating to the Yuba Levee Financing Authority Bonds. The significant terms of the agreement are as follows:

1. To the extent fee revenues are insufficient to pay debt service payments, the Agency agrees to pay all debt service payments required to be paid by the County for the period August 15, 2015 through February 15, 2020. The Agency also agreed to pay all remaining required debt service payments during this time period.

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 16 CONDUIT DEBT (Continued)

2. Under the agreement, debt service payments made by the Agency will be reimbursed to the Agency over time from fee revenue collected over the course of the development and buildout of the Plumas Lake Specific Plan Area and other areas protected by the Project levees.
3. The terms of the agreement call for the Agency to be paid interest on funds provided for debt service payments.
4. No later than July 1, 2019, and every five years thereafter until full payment of the debt service obligation, the parties to the agreement will meet to (a) evaluate the status of development and buildout of the Plumas Lake Specific Plan area and other areas protected by the Project levees, the amount of fee revenue collections by the County from 2014 through early 2020, the forecast for fee revenue and other County revenue and funds available for future debt service payments, and the Agency's financial situation, and (b) discuss and negotiate in good faith regarding the potential extension of the Agency temporary debt service payment obligation under this specific agreement. If the parties agree to an extension, the extension will be memorialized by an amendment to this agreement, which will require the approval of the governing board of each party to the termination of this agreement.
5. The Agency's obligation to pay debt service payments expires on February 16, 2020, unless extended under the terms noted above.

The Bond documents and the Official Statement related to the Revenue Bonds state that the obligation of the Agency to make installment payments does not constitute a debt of the Agency and the County of Yuba reports the Authority's debt as part of its financial statements. The County of Yuba is also considered to have the ability to repay the amounts funded by the Agency through levee impact fees over the long-term. As a result, the debt is not reported as a liability in the financial statements of the Agency and the payments provided by the Agency under the agreement are reported as a long-term loan receivable to the Authority identified in Note 4 as the "County of Yuba TRLIA Bonds loan".

As described in Note 19, the Revenue Bonds, 2008 Series A and Taxable Revenue Bonds, 2008 Series B were refunded in December 2016 with the Yuba Levee Financing Authority Refunding Revenue Bonds, 2017 Series A and Taxable Refunding Revenue Bonds, 2017 Series B.

**YUBA COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 17 GRANT AND PROJECT FUNDING PROVIDED WITHIN THE COUNTY OF YUBA

Each year, the Agency provides significant grant and project funding to the County of Yuba and other local public agencies within Yuba County. The following is a summary of funds provided for the fiscal years ended June 30:

	2016	2015
Grants:		
Yuba County Earle Road Grant	\$ 116,926	
Yuba County Office of Emergency Services	75,000	\$ 75,000
Yuba County Fish & Game Commission	5,650	4,500
City of Marysville 200 Year Report	3,883	
Reclamation District 817 Emergency Study Grant	3,793	
Yuba County Fire Safe Program		18,000
Watershed Protection Plan		2,785
Total Grant Funding	205,252	100,285
Projects:		
Yuba County Public Works Department	215,000	180,988
Yuba County Public Works Construction	147,500	179,255
Yuba County Hammond Grove Center	30,000	
Yuba County Flood Operations		27,579
Total Project Funding	392,500	387,822
Total Grant and Project Funding Provided	\$ 597,752	\$ 488,107

NOTE 18 RELATED PARTY TRANSACTIONS

As discussed in Note 1.A., the Agency is a component unit of the County of Yuba, California and participates in the Yuba Levee Finance Authority, which is also a component unit of the County. The Agency maintains investments in the County Treasury as described in Note 2, has loans receivable from the County and the Successor Agency to the former Yuba County Redevelopment Agency as described in Note 4 and provides grants to and participates in projects with the County as described in Note 17. More information about the Agency's participation in the Yuba Levee Finance Authority debt is reported in Note 16.

NOTE 19 SUBSEQUENT EVENTS

In August 2016, the Board of Directors approved loans in the amount of \$475,000 and \$1,050,000 to two local reclamation districts for levee road gravel projects.

In December 2016, the Yuba Levee Financing Authority Revenue Bonds, 2008 Series A and Taxable Revenue Bonds, 2008 Series B described in Note 16 were refunded with the proceeds of the Yuba Levee Financing Authority Refunding Revenue Bonds, 2017 Series A and Taxable Refunding Revenue Bonds, 2017 Series B, resulting in an annual savings in excess of \$700,000. The Agency agreed to purchase certain assets from the Yuba Levee Financing Authority under an installment sale agreement. The payments under the installment sale agreement will be used as one of the primary sources of repayment of the Bonds. On December 6, 2016, to facilitate the refunding of the Bonds, the Agency approved a lease of certain County solar equipment and a portion of the County's Sheriff Facility from the County and a second lease of the same equipment/facility from the Agency back to the County in an amount not to exceed \$11.1 million. So long as the principal due from the County to the Agency under the lease agreement is not greater than \$11.1 million, the interest rate will be not less than 1.75% and the term will not extend beyond June 1, 2031. On December 13, 2016, \$3.53 million was provided to the County under the lease agreement.

REQUIRED SUPPLEMENTARY INFORMATION

**YUBA COUNTY WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016**

**Schedule of the Proportionate Share of the
Net Pension Liability - Miscellaneous Plan (Unaudited)
Last 10 Years**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.10608%	0.11905%
Proportionate share of the net pension liability	\$ 2,910,127	\$ 2,942,238
Covered - employee payroll - measurement period	\$ 4,554,361	\$ 3,943,225
Proportionate share of the net pension liability as percentage of covered payroll	63.90%	74.62%
Plan fiduciary net position	\$ 14,895,426	\$ 13,727,225
Plan fiduciary net position as a percentage of the total pension liability	83.66%	82.35%

Notes to schedule:

Benefit changes: There were no changes to benefit terms.

Changes in assumptions: The discount rate was changed to 7.65% from 7.5% in the June 30, 2015 valuation.

Omitted Years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**Schedule of Contributions to the Pension Plan - Miscellaneous Plan (Unaudited)
Last 10 Years**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution in Agency's fiscal year (actuarially determined)	\$ 457,092	\$ 548,810
Contributions in relation to the actuarially determined contributions	(2,206,603)	(596,168)
Contribution deficiency (excess)	<u>\$ (1,749,511)</u>	<u>\$ (47,358)</u>
Covered - employee payroll - Agency's fiscal year	\$ 5,767,745	\$ 4,554,361
Contributions as a percentage of covered - employee payroll	7.92%	12.05%

Notes to schedule:

Contributions for the year ended June 30, 2016 include additional payments made against the Agency's unfunded liability during the year. Contributions for the year ended June 30, 2015 include additional contributions made against the Agency's side fund liability. These contributions reduce the net pension liability and will be reflected in the subsequent valuation.

Valuation Date: June 30, 2015 and 2014

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Method	Entry age normal cost method
Amortization Method	Difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over average remaining service life of participants
Remaining Amortization Period	Not stated
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies depending on entry age and service
Investment Rate of Return	7.65% (2016), 7.50% (2015 net of administrative expenses); including inflation.
Retirement Age	50-67 Years. Probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality	CalPERS specific data from January 2014 Actuarial Experience Study for the period 1997 to 2011 that uses 20 years of mortality improvements using Society of Actuaries Scale BB.

Omitted Years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**YUBA COUNTY WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016**

**Schedule of Funding Progress for the
Other Post-Employment Benefits (OPEB) Plan (Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability AAL Entry Age (b)	Unfunded AAL UAAL/(Asset) (b - a)	Funded Ratio (a / b)	Projected Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / (c))
6/30/2011	\$ 3,422,000	\$ 4,048,000	\$ 626,000	84.54%	\$ 3,544,000	17.66%
6/30/2013	4,461,000	4,463,000	2,000	99.96%	3,813,000	0.05%
6/30/2015	5,839,000	5,647,000	(192,000)	103.40%	3,937,000	-4.88%

Note: Schedule above represents last three years available. Missing dates were not available in valuations.

SUPPLEMENTARY INFORMATION

YUBA COUNTY WATER AGENCY
 COMBINING SCHEDULE OF NET POSITION BY UNIT
 JUNE 30, 2016
 WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015

	General Fund	Operation and Maintenance Fund	General Fund Hydro Fund	Hydroelectric Utility Fund	General Fund Power Systems Fund	Health RA Fund	Total	Eliminating Entries	Totals	
									2016	2015
ASSETS										
Current Assets:										
Cash and cash equivalents	\$ 50,093,719	\$ 1,673,808	\$ 34,653	\$ 5,495,743	\$ 1,193,651	\$ 26,000	\$ 58,517,574		\$ 58,517,574	\$ 56,158,805
Receivables:										
Accounts receivable	539,943	594,348	34,772	3,363,907	519,253		5,052,223		5,052,223	571,323
Taxes and interest receivable	112,531		3,062		1,877		117,470		117,470	91,453
Due from other units	12,836,485	396,068		833,222	13,103		14,078,878	\$ (14,078,878)		
Due from other governments	550,894						550,894		550,894	931,887
Prepaid expenses and other current assets	27,743	253,081			50,743		331,567		331,567	290,588
Total Current Assets	64,161,315	2,917,305	72,487	9,692,872	1,778,627	26,000	78,648,606	(14,078,878)	64,569,728	58,044,056
Noncurrent Assets										
Loans receivable from other governments	7,790,660						7,790,660		7,790,660	5,419,995
OPEB asset	46,754	109,091					155,845		155,845	358,000
Capital Assets:										
Non-depreciable:	34,976,306			4,239,108	1,049,177		40,264,591		40,264,591	41,919,561
Depreciable, net	17,813,009		53,924	133,269,034	7,696,995		158,832,962		158,832,962	146,309,508
Total Capital Assets, Net	52,789,315		53,924	137,508,142	8,746,172		199,097,553		199,097,553	188,229,069
Total Noncurrent Assets	60,626,729	109,091	53,924	137,508,142	8,746,172		207,044,058		207,044,058	194,007,064
TOTAL ASSETS	124,788,044	3,026,396	126,411	147,201,014	10,524,799	26,000	285,692,664	(14,078,878)	271,613,786	252,051,120
DEFERRED OUTFLOWS OF RESOURCES										
Pension plan	738,270	1,169,775	6,831		365,517		2,280,393		2,280,393	548,810
Total Deferred Outflows of Resources	738,270	1,169,775	6,831		365,517		2,280,393		2,280,393	548,810
LIABILITIES										
Current Liabilities:										
Accounts payable and other liabilities	1,796,961	778,565	781	227,822	245,435		3,049,564		3,049,564	3,936,376
Salaries and benefits payable	28,396	7,997			6,372		42,765		42,765	199,117
Accrued compensated absences	423,733	363,502			93,021		880,256		880,256	734,558
Due to other units	1,057,440	20,384	231		12,974,823	26,000	14,078,878	(14,078,878)		
Due to other governments	191,900	442,616			58,333		692,849		692,849	344,018
Deposits payable	585,233						585,233		585,233	534,967
Unearned revenue - current	3,918,442						3,918,442		3,918,442	3,862,500
Total Current Liabilities	8,002,105	1,613,064	1,012	227,822	13,377,984	26,000	23,247,987	(14,078,878)	9,169,109	9,611,536
Noncurrent Liabilities										
Unearned revenue - noncurrent	20,000,000						20,000,000		20,000,000	26,312,876
Net pension liability	988,445	1,625,014	39,132		257,536		2,910,127		2,910,127	2,942,238
Total Noncurrent Liabilities	20,988,445	1,625,014	39,132		257,536		22,910,127		22,910,127	29,255,114
Total Liabilities	28,990,550	3,238,078	40,144	227,822	13,635,520	26,000	46,158,114	(14,078,878)	32,079,236	38,866,650
DEFERRED INFLOWS OF RESOURCES										
Pension plan	194,343	337,076	13,258		9,289		553,966		553,966	997,337
Total Deferred Inflows of Resources	194,343	337,076	13,258		9,289		553,966		553,966	997,337
NET POSITION										
Net investment in capital assets	52,789,315		53,924	137,508,142	8,746,172		199,097,553		199,097,553	188,229,069
Unrestricted	43,552,106	621,017	25,916	9,465,050	(11,500,665)		42,163,424		42,163,424	24,506,874
Total Net Position	\$ 96,341,421	\$ 621,017	\$ 79,840	\$ 146,973,192	\$ (2,754,493)	\$ -	\$ 241,260,977	\$ -	\$ 241,260,977	\$ 212,735,943

YUBA COUNTY WATER AGENCY
 COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY UNIT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	Operation and Maintenance Fund	General Fund Hydro Fund	Hydroelectric Utility Fund	General Fund Power Systems Fund	Health RA Fund	Total	Eliminating Entries	Totals	
									2016	2015
Operating Revenues										
Sale of electrical energy		\$ 18,704,389	\$ 176,818	\$ 9,464,996			\$ 28,346,203		\$ 28,346,203	\$ 14,763,601
Water sales	\$ 20,600,456						20,600,456		20,600,456	9,588,078
Total Operating Revenues	<u>20,600,456</u>	<u>18,704,389</u>	<u>176,818</u>	<u>9,464,996</u>			<u>48,946,659</u>		<u>48,946,659</u>	<u>24,351,679</u>
Operating Expenses										
Hydropower generation		3,284,314	10,824	-			3,295,138		3,295,138	2,961,427
Administration and general	611,373	5,190,628	34,057		\$ 2,178,293		8,014,351		8,014,351	6,337,276
Maintenance		2,236,326					2,236,326		2,236,326	3,625,202
Depreciation and amortization	1,290,968		(36,921)	4,050,442	19,274		5,323,763		5,323,763	4,875,299
Total Operating Expenses	<u>1,902,341</u>	<u>10,711,268</u>	<u>7,960</u>	<u>4,050,442</u>	<u>2,197,567</u>		<u>18,869,578</u>		<u>18,869,578</u>	<u>17,799,204</u>
Net Income (Loss) from Operations	<u>18,698,115</u>	<u>7,993,121</u>	<u>168,858</u>	<u>5,414,554</u>	<u>(2,197,567)</u>		<u>30,077,081</u>		<u>30,077,081</u>	<u>6,552,475</u>
Nonoperating Revenues (Expenses)										
Property taxes	449,660						449,660		449,660	430,326
Interest income	749,402		12,207	55	5,337		767,001		767,001	457,997
Rental income	24,000						24,000		24,000	24,000
Grants and reimbursements	888,550						888,550		888,550	1,113,077
Miscellaneous income (expenses)	6,288						6,288		6,288	8,763
Contributions to maintenance		2,859,253					2,859,253		2,859,253	
Recreation and camping fees	289,445						289,445		289,445	262,649
Gain (loss) on disposal of capital assets										(269,501)
General administration	(5,128,679)						(5,128,679)		(5,128,679)	(3,795,033)
Recreation and irrigation	(1,618,970)						(1,618,970)		(1,618,970)	(1,428,697)
Special projects expense	(1,793,187)						(1,793,187)		(1,793,187)	(1,314,028)
Total Nonoperating Revenues (Expenses)	<u>(6,133,491)</u>	<u>2,859,253</u>	<u>12,207</u>	<u>55</u>	<u>5,337</u>		<u>(3,256,639)</u>		<u>(3,256,639)</u>	<u>(4,510,447)</u>
Income (Loss) Before Operating Transfers and Capital Contributions	<u>12,564,624</u>	<u>10,852,374</u>	<u>181,065</u>	<u>5,414,609</u>	<u>(2,192,230)</u>		<u>26,820,442</u>		<u>26,820,442</u>	<u>2,042,028</u>
Operating Transfers										
Transfers in	1,891,764			7,998,170	22,047		9,911,981	\$ (9,911,981)		
Transfers out	(3,504)	(8,347,649)	(1,538,781)	(22,047)			(9,911,981)	9,911,981		
Total Operating Transfers	<u>1,888,260</u>	<u>(8,347,649)</u>	<u>(1,538,781)</u>	<u>7,976,123</u>	<u>22,047</u>					
Capital Contributions										
Capital contributions					1,704,592		1,704,592		1,704,592	230,265
Total Capital Contributions					<u>1,704,592</u>		<u>1,704,592</u>		<u>1,704,592</u>	<u>230,265</u>
Change in Net Position	<u>14,452,884</u>	<u>2,504,725</u>	<u>(1,357,716)</u>	<u>13,390,732</u>	<u>(465,591)</u>		<u>28,525,034</u>		<u>28,525,034</u>	<u>2,272,293</u>
Net Position, Beginning of Year	<u>81,888,537</u>	<u>(1,883,708)</u>	<u>1,437,556</u>	<u>133,582,460</u>	<u>(2,288,902)</u>		<u>212,735,943</u>		<u>212,735,943</u>	<u>210,463,650</u>
Net Position, End of Year	<u>\$ 96,341,421</u>	<u>\$ 621,017</u>	<u>\$ 79,840</u>	<u>\$ 146,973,192</u>	<u>\$ (2,754,493)</u>	<u>\$ -</u>	<u>\$ 241,260,977</u>	<u>\$ -</u>	<u>\$ 241,260,977</u>	<u>\$ 212,735,943</u>

OTHER INDEPENDENT AUDITORS' REPORTS



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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
Yuba County Water Agency
Marysville, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Yuba County Water Agency (the Agency) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated February 7, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the auditing 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of 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*.

Yuba County Water Agency
Marysville, California

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

February 7, 2017