A PUBLIC AGENCY

# NCPA

NORTHERN CALIFORNIA POWER AGENCY

## AND

## ASSOCIATED POWER CORPORATIONS

**Reports on Audit of Combined Financial Statements**
**and**
**Supplementary Information**

**For the Years Ended June 30, 2015 and 2014**

**NORTHERN CALIFORNIA POWER AGENCY**
**AND ASSOCIATED POWER CORPORATIONS**

**Reports on Audit of Combined Financial Statements**
**and Supplementary Information**

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## MANAGEMENT’S DISCUSSION AND ANALYSIS

## NORTHERN CALIFORNIA POWER AGENCY
## AND ASSOCIATED POWER CORPORATIONS

The following management’s discussion and analysis of the Northern California Power Agency (the Agency) and its financial performance provides an overview of the Agency’s financial activities for the years ended June 30, 2015 and 2014. This discussion should be read in conjunction with the Agency’s combined financial statements and accompanying notes, which follow this section.

### BACKGROUND

The Northern California Power Agency is a joint powers agency formed by member public entities under the laws of the State of California. The Agency is responsible for purchasing, generating, transmitting, and selling electrical energy and for providing other related services to its members as each may require. The Agency provides a portion of certain of its members’ power needs and certain of its members also self-provide and/or purchase power and transmission from other public and private sources.

The Agency is governed by a Commission comprised of one representative for each member. The Commission is responsible for the general management of the affairs, property, and business of the Agency. Under the direction of the General Manager, the staff of the Agency is responsible for providing various administrative, operating and planning services for the Agency.

The Agency's project construction and development programs have been individually financed by project revenue bonds that are collateralized by the Agency's assignment of all payments, revenues, and proceeds associated with its interest in each project. Each of the Agency's members may choose which projects it wishes to participate in, and is known as a "project participant" for each such project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project; notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason (that is, the take-or-pay member agreements). Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Power sales by the Agency to its members for their resale include both sales of power to project participants generated by operating plants and power purchased from outside sources. Collections for power sales are designed to recover costs that include budgeted annual operating costs and debt service. Additional amounts for operating reserves or cost stabilization may be included in collections under the terms of bond indentures. The Agency’s collections for electric service are not subject to the regulatory jurisdiction of the California Public Utilities Commission (CPUC) or the Federal Energy Regulatory Commission (FERC). Rather, the Agency’s collections are established annually in connection with its budget, which is approved by its governing Commission.

Various legal and tax considerations caused the Agency to provide that separate not-for-profit corporations should be delegated by the Agency to own the geothermal electrical generating projects undertaken by the Agency ("the Associated Power Corporations"). The Associated Power Corporations, consisting of Northern California Municipal Power Corporation Nos. Two and Three, have delegated to the Agency the authority to construct, operate, and manage their respective geothermal plants and related assets. The Agency, in return for financing the costs of acquisition and construction, acquires all the capacity and energy generated by the plants.

Because the Agency is a separate, governmental and not-for-profit organization that serves its participating members, who are also the Agency’s principal customers, the net results of operations flow through to its participating members as either net revenues or net expenses.

**NORTHERN CALIFORNIA POWER AGENCY**
**AND ASSOCIATED POWER CORPORATIONS**

## FINANCIAL REPORTING

For accounting purposes, the Agency is a special-purpose governmental entity that is engaged in a business-type activity, principally as a supplier of wholesale electricity and transmission to its member participants. As such, the Agency's financial statements are presented as an enterprise type fund.

The records of the Agency and the Associated Power Corporations are maintained substantially in accordance with the FERC Uniform System of Accounts. Accounting principles generally accepted in the United States of America are applied by the Agency in conformance with pronouncements of the Governmental Accounting Standards Board (GASB). The combined financial statements encompass the Agency and Associated Power Corporations on an accrual accounting basis. All significant intercompany balances and transactions have been eliminated from the combined amounts reported.

In accordance with GASB Statement of Government Accounting Standards No. 62, Codification of Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting (GASB No. 62), the Agency has recorded as regulatory assets and liabilities certain items of expense and revenue that otherwise would have been charged to operations as such items will be recovered in the future years' operations. The Agency expects to recover these items in collections over the term of the related debt obligations it has issued or when the obligation is paid.

Effective for fiscal year ended June 30, 2015, the Agency adopted GASB Statement of Government Accounting Standards No. 68, Accounting and Financial Reporting for Pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses. As a result, the Agency recorded an adjustment of $56.7 million for Net Pension Liability at the beginning of FY 2015 and in accordance with GASB No. 62, recorded a regulatory asset of $56.7 million. The Agency has not restated the financial statements as of and for the year ended June 30, 2014 given that the necessary information was not made available by the California Public Employees' Retirement System pension plans.

## COMBINED STATEMENTS OF NET POSITION, COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, AND COMBINED STATEMENTS OF CASH FLOW

The combined statements of net position includes all the Agency's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual method of accounting, as well as information about which assets can be used for general purposes and which assets are restricted as a result of bond covenants and other commitments. The combined statement of net position provides information about the nature and amount of resources and obligations at a specific point in time. The combined statements of revenues, expenses, and changes in net position report all the revenues and expenses during the time periods indicated. The combined statements of cash flow report the cash provided and used by operating activities, as well as other cash sources such as investment income and debt financing, and other cash uses, such as payments for debt service and capital additions.

## NORTHERN CALIFORNIA POWER AGENCY
## AND ASSOCIATED POWER CORPORATIONS

## FINANCIAL HIGHLIGHTS

The following is a summary of the Agency's combined financial position and results of operations for the years ended June 30, 2015, 2014, and 2013.

| Condensed Statement of Net Position | June 30, (in thousands) 2015 | 2014 | 2013 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 81,501 | $ 84,293 | $ 78,502 |
| Restricted assets | 204,769 | 215,718 | 213,807 |
| Electric plant, net | 618,708 | 648,857 | 676,070 |
| Other assets | 249,659 | 194,919 | 210,904 |
| Total Assets | 1,154,637 | 1,143,787 | 1,179,283 |
| Deferred outflows of resources | 67,424 | 69,586 | 76,773 |
| | $ 1,222,061 | $ 1,213,373 | $ 1,256,056 |
| | | | |
| **Liabilities and Net Position** | | | |
| Long-term debt, net | $ 816,936 | $ 855,672 | $ 893,258 |
| Current liabilities | 93,224 | 94,475 | 92,118 |
| Non-current liabilities | 199,980 | 148,869 | 139,507 |
| Total Liabilities | 1,110,140 | 1,099,016 | 1,124,883 |
| Deferred inflows of resources | 81,930 | 82,124 | 95,768 |
| Net position: | | | |
| Net investment in capital assets | (60,971) | (60,797) | (55,630) |
| Restricted | 64,688 | 66,326 | 64,737 |
| Unrestricted | 26,274 | 26,704 | 26,298 |
| | $ 1,222,061 | $ 1,213,373 | $ 1,256,056 |

| Condensed Statements of Revenues, Expenses and Changes in Net Position | Years Ended June 30, (in thousands) 2015 | 2014 | 2013 |
|---|---|---|---|
| Sales for resale | $ 423,887 | $ 405,185 | $ 340,968 |
| Operating expenses | (378,672) | (340,669) | (286,262) |
| Net operating revenues | 45,215 | 64,516 | 54,706 |
| Other expenses | (38,260) | (40,648) | (24,761) |
| Future recoverable (refundable) costs | (2,292) | (17,207) | (11,737) |
| Refunds to participants | (6,905) | (9,833) | (11,200) |
| Increase (decrease) in net position | (2,242) | (3,172) | 7,008 |
| Net position, beginning of year | 32,233 | 35,405 | 28,397 |
| Net position, end of year | $ 29,991 | $ 32,233 | $ 35,405 |

## ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

### Current Assets

*2015 Compared to 2014* - Current assets decreased $2.8 million or 3.3% from the prior year, primarily due to cash expended for operating and investing activities, reductions in third party accounts receivable offset by increases in inventory and prepaid expenses.

*2014 Compared to 2013* - Current assets increased $5.8 million or 7.4% from the prior year, primarily due to cash provided by operating and investing activities, increases in inventory and prepaid expenses offset by reductions in both participant and other third party accounts receivable.

### Restricted Assets

*2015 Compared to 2014* - Restricted assets decreased $10.9 million or 5.1% from the prior year. This is primarily a result of net participants' withdrawals from their General Operating Reserves of $15.9 million offset by increases in collections of budgeted reserves and deposits of $5.0 million.

*2014 Compared to 2013* - Restricted assets increased $1.9 million or 0.9% from the prior year. This is primarily a result of increases in budgeted reserves of $7.2 million offset by $5.3 million in construction expenditures related to the Lodi Energy Center final closeout and Geothermal plant turbine modifications.

### Electric Plant, net

*2015 Compared to 2014* - The Agency has invested approximately $618.7 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2015. Net utility plant comprises approximately 50.6% of the Agency's assets. The $30.1 million or 4.6% decrease from the prior year consists of $31.1 million in depreciation, offset by net capital expenditures of $1.0 million. For additional detail, refer to Note B – Significant Accounting Policies.

*2014 Compared to 2013* - The Agency has invested approximately $648.9 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2014. Net utility plant makes up approximately 54.5% of the Agency's assets. The $27.2 million or 4.0% decrease from the prior year consists of $30.2 million in depreciation, offset by net capital expenditures of $3.2 million. For additional detail, refer to Note B – Significant Accounting Policies.

### Other Assets

*2015 Compared to 2014* - Other assets increased $54.7 million or 28.1% compared to 2014. This was primarily due to recognition of regulatory assets related to net pension liability of $57.3 million and increased interest rate swap liability of $1.2 million offset by a reduction of other regulatory assets held for future recovery of $3.8 million.

*2014 Compared to 2013* - Other assets decreased $16.0 million or 7.6% compared to 2013. This was primarily a result of the reduction of regulatory assets held for future recovery and the write-off of preliminary survey and investigation costs.

### Deferred Outflows

*2015 Compared to 2014* - Total deferred outflows of resources decreased $2.2 million due to the scheduled amortization of excess of cost on refunding of debt of $7.5 million offset by increase of deferred pension contribution of $5.3 million.

*2014 Compared to 2013* - Total deferred outflows of resources decreased $7.2 million due to the scheduled amortization of excess of cost on refunding of debt.

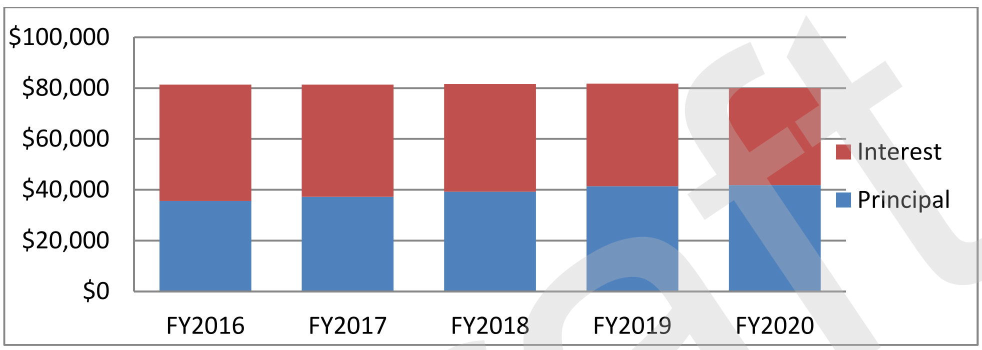
## LIABILITIES

**Long-Term Debt, net**

*2015 Compared to 2014* - Long-term debt, net decreased $38.7 million or 4.5% in 2015 as a result of scheduled principal payments of $34.0 million, net premium amortization of $3.1 million and net increase in current portion of long-term debt of $1.6 million. For additional detail, refer to Note D – Projects and Related Financing.

*2014 Compared to 2013* - Long-term debt, net decreased $37.6 million or 4.2% in 2014 as a result of scheduled principal payments of $34.4 million and net premium amortization of $3.5 million offset by the net change in current portion of long-term debt of $0.4 million. For additional detail, refer to Note D – Projects and Related Financing.

The following table shows the Agency's debt service requirements through FY 2020 as of June 30, 2015:






**Current Liabilities**

*2015 Compared to 2014* - Current liabilities decreased by $1.3 million or 1.3% in 2015. This is primarily due to decreases in accounts payable of $6.4 million and interest payable of $0.6 million, offset by additional operating reserves of $4.1 million and increases in current portion of long-term debt of $1.6 million.

*2014 Compared to 2013* - Current liabilities increased by $2.3 million or 2.5% in 2014. This is primarily due to increases in accounts payable of $3.2 million and additional operating reserves of $0.9 million, offset by net decreases in member advances, interest payable, and current portion of long-term debt of $1.7 million.

**Other Non-Current Liabilities**

*2015 Compared to 2014* - Non-current liabilities increased by a net of $51.1 million or 25.6% in 2015. This was primarily due to recording net pension liability of $57.3 million and increased interest rate swap liability of $1.2 million offset by decrease in operating reserves of $7.4 million for participants' withdrawals.

*2014 Compared to 2013* - Non-current liabilities increased by a net of $9.4 million or 6.7% in 2014. This was primarily due to increases in operating reserves of $9.1 million and $0.3 million in the interest rate swap liability.

**Deferred Inflows**

*2015 Compared to 2014* – Total deferred inflows of resources decreased $0.2 million due to the recognition of certain revenues related to the depreciation or use of assets originally funded through collections offset by higher than expected actuarial pension earnings to be adjusted in future collections.

*2014 Compared to 2013* – Total deferred inflows of resources decreased $13.6 million due to the recognition of certain revenues related to the depreciation or use of assets originally funded through the rate-making process.

## CHANGES IN NET POSITION

The Agency is intended to operate on a not-for-profit basis. Therefore, net position primarily represents differences between total revenues collected, using rates based on estimated operating expenses and debt service, and the total actual expenses incurred. In subsequent periods of operation, excess collections (net of encumbrances) may be refunded to participants or appropriated for other uses at the discretion of the Agency's governing Board of Commissioners. In the event the Agency incurs a net expense at year-end, the balance would be subject to recovery in participant rates under the terms of the related participating member agreements. See Notes A, B and D to the Combined Financial Statements.

**Sales For Resale**

*2015 Compared to 2014* - Sales for resale revenues for fiscal year 2015 were approximately $18.7 million or 4.6% higher than in the prior fiscal year. This was the net result of the following: (1) increased other third party revenues of $50.9 million or 59.8%, attributable primarily to increased energy sales into the ISO market from the generation plants; and (2) lower sales for resale revenues from Agency participants of $32.2 million or 10.1% due to lowered budget requirements of plant operations.

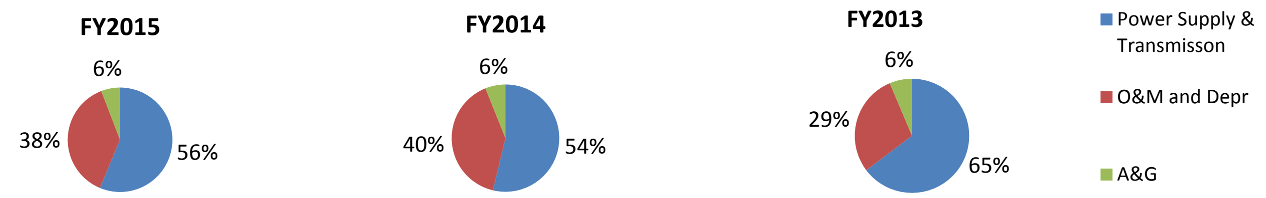
*2014 Compared to 2013* - Sales for resale revenues for fiscal year 2014 were approximately $64.2 million or 18.8% higher than in the prior fiscal year. This was the net result of the following: (1) higher sales for resale revenues from Agency participants of $29.4 million or 10.1%, which was caused by increased budget requirements of plant operations, specifically LEC, which operated full year in FY 2014 compared to seven months in FY 2013; and (2) increased other third party revenues of $34.8 million or 69.1%, which was primarily the result of increased energy sales into the ISO market from the LEC project.

**Operating Expenses**

*2015 Compared to 2014* - Operating expenses were $378.7 million in FY 2015, an increase of $38.0 million from FY 2014. Purchased power expense was $27.7 million higher in 2015 mainly due to larger volume as compared to 2014. Operations expense increased $5.9 million primarily due to increased fuel usage for the LEC. The LEC generated 1,668.7 MWh in FY 2015 compared to 1,241.9 MWh in FY 2014. Maintenance expenses were $4.6 million lower than in FY 2014 due to reduced plant maintenance costs and the re-direction of labor costs from maintenance projects to plant operations. Additionally, the increase in transmission costs of $7.1 million was due to higher generation and increased CAISO wheeling access charges during the year.

*2014 Compared to 2013* - Operating expenses were $340.7 million in FY 2014, an increase of $54.4 million from FY 2013. Purchased power expense was $23.8 million higher in 2014 mainly due to higher average prices and larger volume as compared to 2013. Operations expense increased $22.5 million primarily due to increased fuel usage for the LEC. The LEC operated the entire year compared to only seven months in FY 2013. Maintenance expenses were $4.1 million higher than in FY 2013 due to increased maintenance for the LEC, primarily related to costs of the project's long-term maintenance agreement, and Geothermal maintenance related to turbine generator projects. Additionally, increases in administrative and general and transmission costs of $4.4 million were offset by a decrease of depreciation expense of $0.4 million.

The following charts compare the components of Operating Expenses in fiscal years ending June 30, 2015, 2014, and 2013:




## FINANCING ACTIVITIES

During 2015 and 2014 the Agency continued to implement strategies to further improve its competitive position and financial flexibility. These actions included: (1) monitoring current financial market conditions for financing or refinancing opportunities; (2) replacing the letter of credit provider related to outstanding variable rate bonds; and, (3) providing rating agencies annual updates on all projects.

The Agency has issued variable rate 2008 Hydroelectric Refunding Series A ($85,160,000) bonds and 2008 Hydroelectric Refunding Series B ($3,165,000) bonds. To support this financing, the Agency entered into two irrevocable direct pay letter of credit agreements with Citibank N.A. The Citibank letters of credit were for a period of three years to expire on September 27, 2014.

On September 10, 2014, the irrevocable letter of credit agreements with Citibank N.A. were terminated. Substitution letters of credit with the Bank of Montreal were issued the same day. The Bank of Montreal letters of credit are for a period of five years and expire on September 9, 2019.

Each year the Agency has either informal discussions or sometimes formal presentations with each of the credit rating agencies in order to maintain ongoing communications. In December 2013, Moody's upgraded three of the Agency's projects: the Hydroelectric was upgraded to A1 stable from A2, while the LEC Issue One and the Capital Facilities were both upgraded to A2 stable from A3. In May of 2014, Fitch affirmed its current rating on all projects. In October 2014, Standard and Poor's affirmed its current rating on all projects.

Ratings assigned to the Agency's outstanding project bonds as of June 30, 2015 are as follows:

| **Debt Credit Ratings:** | Standard & Poor's | Fitch | Moody's |
|---|---|---|---|
| Geothermal | A-, stable | A+, stable | A1, stable |
| Hydroelectric | A+, stable | A+, stable | A1, stable |
| Capital Facilities | A-, stable | Not rated | A2, stable |
| Lodi Energy Center (Issue One) | A-, stable | A, stable | A2, stable |
| Lodi Energy Center (Issue Two) | AAA, stable | Not rated | Aa2, stable |

**NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS**

## SUMMARY

The management of the Agency is responsible for preparing the information in this management's discussion and analysis, combined financial statements and notes to the combined financial statements. Financial statements were prepared according to accounting principles generally accepted in the United States of America, and they fairly portray the Agency's financial position and operating results. The notes to the financial statements are an integral part of the basic financial statements and provide additional financial information.

# Agency Financials

**COMBINED STATEMENTS OF NET POSITION**

**NORTHERN CALIFORNIA POWER AGENCY**
**AND ASSOCIATED POWER CORPORATIONS**

| | June 30, | |
|---|---|---|
| | 2015 | 2014 |
| ASSETS | (in thousands) | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 45,593 | $ 72,553 |
| Investments | 24,067 | - |
| Accounts receivable | | |
| Participants | 24 | 17 |
| Other | 2,127 | 2,742 |
| Interest receivable | 86 | 38 |
| Inventory and supplies – at average cost | 8,149 | 7,645 |
| Prepaid expenses | 1,455 | 1,298 |
| TOTAL CURRENT ASSETS | 81,501 | 84,293 |
| RESTRICTED ASSETS | | |
| Cash and cash equivalents | 57,586 | 57,598 |
| Investments | 146,922 | 157,952 |
| Interest receivable | 261 | 168 |
| TOTAL RESTRICTED ASSETS | 204,769 | 215,718 |
| ELECTRIC PLANT | | |
| Electric plant in service | 1,500,076 | 1,500,015 |
| Less: accumulated depreciation | (881,412) | (851,199) |
| | 618,664 | 648,816 |
| Construction work-in-progress | 44 | 41 |
| TOTAL ELECTRIC PLANT | 618,708 | 648,857 |
| OTHER ASSETS | | |
| Regulatory assets | 249,659 | 194,919 |
| TOTAL ASSETS | 1,154,637 | 1,143,787 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Excess cost on refunding of debt | 62,114 | 69,586 |
| Pension contribution | 5,310 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 67,424 | 69,586 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 1,222,061 | $ 1,213,373 |

**COMBINED STATEMENTS OF NET POSITION**

**NORTHERN CALIFORNIA POWER AGENCY**
**AND ASSOCIATED POWER CORPORATIONS**

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| LIABILITIES | (in thousands) | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 23,462 | $ 29,814 |
| Member advances | 993 | 993 |
| Operating reserves | 21,185 | 17,110 |
| Current portion of long-term debt | 35,615 | 34,000 |
| Accrued interest payable | 11,969 | 12,558 |
| TOTAL CURRENT LIABILITIES | 93,224 | 94,475 |
| NON-CURRENT LIABILITIES | | |
| Net pension liability | 57,260 | - |
| Operating reserves and other deposits | 126,185 | 133,574 |
| Interest rate swap liability | 16,535 | 15,295 |
| Long-term debt, net | 816,936 | 855,672 |
| TOTAL NON-CURRENT LIABILITIES | 1,016,916 | 1,004,541 |
| TOTAL LIABILITIES | 1,110,140 | 1,099,016 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Regulatory credits | 76,984 | 82,124 |
| Pension earnings | 4,946 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 81,930 | 82,124 |
| NET POSITION | | |
| Net investment in capital assets | (60,971) | (60,797) |
| Restricted | 64,688 | 66,326 |
| Unrestricted | 26,274 | 26,704 |
| TOTAL NET POSITION | 29,991 | 32,233 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | $ 1,222,061 | $ 1,213,373 |

**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS**



| | Years Ended June 30, 2015 | 2014 |
|---|---|---|
| | (in thousands) | |
| SALES FOR RESALE | | |
| Participants | $ 287,845 | $ 320,052 |
| Other Third-Party | 136,042 | 85,133 |
| TOTAL SALES FOR RESALE | 423,887 | 405,185 |
| OPERATING EXPENSES | | |
| Purchased power | 153,033 | 125,325 |
| Operations | 90,617 | 84,709 |
| Transmission | 60,139 | 53,081 |
| Depreciation | 31,140 | 30,244 |
| Maintenance | 21,659 | 26,286 |
| Administrative and general | 22,084 | 21,024 |
| TOTAL OPERATING EXPENSES | 378,672 | 340,669 |
| NET OPERATING REVENUES | 45,215 | 64,516 |
| OTHER (EXPENSES) REVENUES | | |
| Interest expense | (44,885) | (44,296) |
| Interest income | 1,429 | 737 |
| Other | 5,196 | 2,911 |
| TOTAL OTHER EXPENSES | (38,260) | (40,648) |
| FUTURE RECOVERABLE AMOUNTS | (2,292) | (17,207) |
| REFUNDS TO PARTICIPANTS | (6,905) | (9,833) |
| INCREASE (DECREASE) IN NET POSITION | (2,242) | (3,172) |
| NET POSITION, Beginning of year | 32,233 | 35,405 |
| NET POSITION, End of year | $ 29,991 | $ 32,233 |

See notes to combined financial statements 

**COMBINED STATEMENTS OF CASH FLOW**

**NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS**

| | Years Ended June 30, 2015 | Years Ended June 30, 2014 |
|---|---|---|
| | (in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from participants | $ 282,699 | $ 304,933 |
| Received from others | 137,479 | 87,071 |
| Payments for employee services | (32,118) | (32,532) |
| Payments to suppliers for goods and services | (326,564) | (266,895) |
| NET CASH FROM OPERATING ACTIVITIES | 61,496 | 92,613 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from maturities and sales of investments | 131,019 | 192,307 |
| Interest received on cash and investments | 1,027 | 594 |
| Purchase of investments | (143,793) | (188,136) |
| NET CASH FROM INVESTING ACTIVITIES | (11,747) | 4,765 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of electric plant | (991) | (3,031) |
| Interest paid on long-term debt | (39,884) | (41,529) |
| Principal repayment on long-term debt | (34,000) | (34,367) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (74,875) | (78,927) |
| CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Other proceeds | 5,059 | 2,911 |
| Refunds to participants | (6,905) | (9,833) |
| NET CASH FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES | (1,846) | (6,922) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (26,972) | 11,529 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 130,151 | 118,622 |
| End of year | $ 103,179 | $ 130,151 |

## COMBINED STATEMENTS OF CASH FLOW-Continued

## NORTHERN CALIFORNIA POWER AGENCY
## AND ASSOCIATED POWER CORPORATIONS

| | Years Ended June 30, 2015 | Years Ended June 30, 2014 |
|---|---|---|
| | (in thousands) | |
| RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES | | |
| Net operating revenues | $ 45,215 | $ 64,516 |
| Adjustments to reconcile net operating revenues to net cash from operating activities: | | |
| Depreciation | 31,140 | 30,244 |
| | 76,355 | 94,760 |
| CASH FLOWS IMPACTED BY CHANGES IN | | |
| Accounts receivable | 608 | 524 |
| Inventory and prepaid expense | (661) | (752) |
| Preliminary survey and investigation costs | - | 279 |
| Operating reserves and other deposits | (3,314) | 9,910 |
| Member advances | - | (165) |
| Regulatory assets | - | (1,500) |
| Regulatory credits | (5,140) | (13,645) |
| Accounts payable | (6,352) | 3,202 |
| NET CASH FROM OPERATING ACTIVITIES | $ 61,496 | $ 92,613 |
| CASH AND CASH EQUIVALENTS AS STATED IN THE COMBINED STATEMENT OF NET POSITION | | |
| Cash and cash equivalents - current assets | $ 45,593 | $ 72,553 |
| Cash and cash equivalents - restricted assets | 57,586 | 57,598 |
| End of year | $ 103,179 | $ 130,151 |

## NOTE A -- ORGANIZATION

**The Agency** Northern California Power Agency (Agency) was formed in 1968 as a joint powers agency of the State of California. The membership consists of eleven cities with publicly-owned electric utility distribution systems, one port authority, a transit authority, one public utility district, and one associate member. The Agency is generally empowered to purchase, generate, transmit, distribute, and sell electrical energy. Members participate in the projects of the Agency on an elective basis.

Various legal and tax considerations caused the Agency to provide that separate not-for-profit corporations should be delegated by the Agency to own the geothermal electrical generating projects undertaken by the Agency ("the Associated Power Corporations"). The Associated Power Corporations, Northern California Municipal Power Corporations Nos. Two and Three, have delegated to the Agency the authority to construct, operate and manage their respective geothermal plants and related assets. The Agency, in return for financing the costs of acquisition and construction, acquires all the capacity and energy generated by the plants. See Note D – Projects and Related Financing.

The Agency is governed by a Commission comprised of one representative for each member. The Commission is responsible for the general management of the affairs, property, and business of the Agency. Under the direction of the General Manager, the staff of the Agency is responsible for providing various administrative, operating, and planning services for the Agency.

## NOTE B -- SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting and Principles of Combination** For accounting purposes, the Agency is a special-purpose governmental entity that is engaged in a business-type activity, principally as a supplier of wholesale electricity and transmission to its member participants. As such, the Agency's financial statements are presented as an enterprise type fund.

The records of the Agency and its Associated Power Corporations are maintained substantially in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. Accounting principles generally accepted in the United States of America are applied by the Agency in conformance with pronouncements of the Governmental Accounting Standards Board (GASB). The combined financial statements encompass the Agency and Associated Power Corporations on an accrual accounting basis. All significant intercompany balances and transactions have been eliminated from the combined amounts reported.

**Cash and Cash Equivalents** Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less, all investments in the Local Agency Investment Fund (LAIF) and cash maintained in interest-bearing depository accounts, which are fully insured or collateralized in accordance with state law. Cash balances may be invested in either overnight repurchase agreements, which are fully collateralized by U.S. Government Securities, or in money market funds invested in short-term U.S. Treasury Securities. The Agency commingles operating cash for investment purposes only. Separate detailed accounting records are maintained for each account's related investments. All cash of the Agency is held by either the Agency's custodian or its primary bank and revenue bond trustee. The debt instruments are reported at amortized cost, which approximates fair value.

**Investments** The Agency's investments are reported at fair value. Realized and unrealized gains and losses are included in interest income in the Statement of Revenue, Expenses and Changes in Net Position.

**Accounts Receivable** Accounts Receivable consists primarily of amounts due from participants and other governmental entities related to sales of energy and transmission. Amounts are deemed to be collectible and as such, no allowance for uncollectible accounts has been recorded.

**Inventory and Supplies** Inventory and supplies consist primarily of spare parts for the maintenance of plant assets and are stated at average cost.

**Restricted Assets** Cash and cash equivalents, investments and related accrued interest, which are restricted under terms of certain agreements, trust indentures or Commission actions limiting the use of such funds, are included in restricted assets.

**Electric Plant** Electric plant in service is recorded at historical cost. The cost of additions, renewals and betterments is capitalized; repairs and minor replacements are charged to operating expenses as incurred. The original cost of property retired, net of removal and salvage costs, is charged to accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The provision for depreciation was approximately 2.8% and 2.0% of the average electric plant in service for the Agency during 2015 and 2014, respectively. Depreciation is calculated using the following estimated lives:

| | |
|---|---|
| Generation and Transmission | 25 to 42 years |
| General Plant | 5 to 25 years |
| Transportation Equipment | 5 years |

A summary of changes in electric plant for the year ended June 30, 2015 is as follows:

| | Balance June 30, 2014 | Additions | Deletions | Balance June 30, 2015 |
|---|---|---|---|---|
| | (in thousands) | | | |
| Structures and Leasehold Improvements | $ 318,554 | $ 515 | $ - | $ 319,069 |
| Reservoirs, Dams and Waterways | 249,339 | - | - | 249,339 |
| Equipment | 757,944 | 293 | (927) | 757,310 |
| Furniture and Fixtures | 2,233 | 180 | - | 2,413 |
| | 1,328,070 | 988 | (927) | 1,328,131 |
| Accumulated Depreciation | (851,199) | (31,140) | 927 | (881,412) |
| | 476,871 | (30,152) | - | 446,719 |
| Construction Work-In-Progress | 41 | 714 | (711) | 44 |
| Land and Land Rights | 171,945 | - | - | 171,945 |
| Electric Plant, Net | $ 648,857 | $ (29,438) | $ (711) | $ 618,708 |

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A summary of changes in electric plant for the year ended June 30, 2014 is as follows:

| | Balance June 30, 2013 | Additions | Deletions | Balance June 30, 2014 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Structures and Leasehold Improvements | $ 318,300 | $ 763 | $ (509) | $ 318,554 |
| Reservoirs, Dams and Waterways | 249,339 | - | - | 249,339 |
| Equipment | 752,930 | 14,694 | (9,680) | 757,944 |
| Furniture and Fixtures | 2,233 | - | - | 2,233 |
| | 1,322,802 | 15,457 | (10,189) | 1,328,070 |
| Accumulated Depreciation | (831,144) | (30,244) | 10,189 | (851,199) |
| | 491,658 | (14,787) | - | 476,871 |
| Construction Work-In-Progress | 12,467 | 1,554 | (13,980) | 41 |
| Land and Land Rights | 171,945 | - | - | 171,945 |
| Electric Plant, Net | $ 676,070 | $ (13,233) | $ (13,980) | $ 648,857 |

**Construction Work-In-Progress** Construction work-in-progress (CWIP) includes the capitalized cost of land, material, equipment, labor, interest (net of interest income), certain other financing costs incurred to facilitate the projects and an allocated portion of general and administrative expenses related to the development of electric plant. In addition, CWIP ultimately includes costs incurred during the test and start-up phase of projects prior to commencement of commercial operations.

**Preliminary Surveys and Investigations Costs** Expenditures for preliminary surveys, plans and investigations (PS&I) are deferred until the ultimate feasibility of the contemplated project is determined. When a project is continued, these expenditures are capitalized as part of CWIP and the related advances provided by members to fund such expenditures are repaid out of the permanent financing of the project. If a project is abandoned, such expenditures and related advances are included in operations when such determination is made. No PS&I expenditures were deferred for years ended June 30, 2015 and 2014.

**Regulatory Assets/Credits** In accordance with GASB No. 62, the Agency has deferred certain items of expense and revenue that otherwise would have been charged to operations because it is probable that such items will be recovered in future years' operations. The Agency expects to recover these items through participant collections over the term of the related debt obligations it has issued. On an ongoing basis, the Agency reviews its operations to determine the continued applicability of these deferrals under GASB No. 62.

The items of expense that have been deferred are those originally paid from bond proceeds, including depreciation, certain bond amortizations, and interest paid from bond proceeds. These amounts are recorded to future recoverable amounts. Revenues used to acquire electric plant have also been deferred to future years. As of June 30, 2015 and 2014, the Agency had accumulated regulatory assets, net of regulatory credits, of approximately $172,675,000 and $112,795,000, respectively.

**Debt Related Costs** Debt issuance costs are expensed as incurred. Excess costs on refunding of bonds are considered deferred outflows of resources as prescribed by GASB Statement No. 65 and amortized over the life of the refunding bonds, or the life of the refunded bonds, whichever is shorter. Amortization is computed using the effective interest method and included in interest expense.

**Compensated Absences** Accumulated unpaid compensated absences are accrued as the obligation is incurred. Compensated absences are included in current liabilities.

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

**Long-Term Debt** Long-term debt is stated net of unamortized discounts and premiums. Discounts and premiums are amortized over the term of the related obligation using the effective interest method. Amortization of debt discounts and premiums is included in total interest expense for the period. See Note D - Projects and Related Financing.

**Operating Reserves** The Agency has established various funded operating reserves, in accordance with various bond indentures, project agreements, and prudent utility practice, for anticipated periodic operating costs and related liabilities including, but not limited to, scheduled maintenance other than ordinary repairs and replacements. Certain amounts funded each year are charged to operating expense because the rates established by the Agency for power sales to its members include these costs on a prospective basis. Changes to operating reserve levels are periodically evaluated during the annual budgeting process. A non-project specific, individual participant controlled, general operating reserve is also maintained for participating Agency members.

**Rates** Power sales to participants for their resale include both power generated by operating plants and power purchased from outside sources. Collection rates for power sales are designed to recover costs that include budgeted annual operating costs and debt service. Additional amounts for operating reserves or rate stabilization may be included in collection rates under the terms of bond indentures. During fiscal years 2015 and 2014, no amounts were specifically collected for rate stabilization.

The Agency's collection rates for electric service are not subject to the regulatory jurisdiction of the California Public Utilities Commission (CPUC) or FERC. Rather, the Agency's rates are established annually in connection with its budget, which is approved by its governing Commission.

**Power, Transmission and Fuel Forward Transactions** In the normal course of its business, the Agency is required to manage loads, resources, and energy price risk on behalf of its members. Consequently, the Agency buys and sells power, transmission, and fuel in wholesale markets as required. The Agency does not enter into such agreements solely for trading purposes. All such transactions are normal purchases and sales subject to settlement at the agreed to contract prices for quantities delivered. While authorized to transact forward purchase contracts for terms of up to five years, forward contract purchases at fiscal year ended June 30, 2015 were for periods not greater than four years duration beyond the current fiscal year. In the event of default, undelivered transactions are required to be marked-to-market subject to the following limitations.

If the Agency, as buyer, is the defaulting entity, the Agency's termination settlement amount is capped at the agreed to contract cost for all future undelivered commodities. If the selling counterparty is the defaulting entity, the seller's termination settlement is not capped for all future undelivered commodities. The defaulting entity is also subject to resultant transmission charges, brokerage fees, attorney fees, and all other reasonable expenses. See Note G - Commitments and Contingencies, Power Purchase Contracts.

**Fair Values of Financial Instruments** The following methods and assumptions were used by the Agency in estimating its fair value disclosures for financial instruments:

*Cash and Cash Equivalents* - The carrying amount reported in the statements of net position for cash and cash equivalents approximates its fair value.

*Investments* - The fair values for investments are based on quoted market prices. See Note C - Investments.

*Swaps* - The fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that were received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. While the current net mark to market values are negative, this valuation would be realized only if the swaps were terminated at the valuation date.

*Long-Term Debt* – The fair value of the Agency's long-term debt (including current maturities) as of June 30, 2015 and 2014 is estimated to be approximately $1,343,678,000 and $1,421,565,000. This estimate was developed using discounted cash flow analyses, based on current borrowing rates for tax-exempt securities with similar ratings and maturities.

**Net Position** The Agency classifies its net position into three components; invested in capital assets, restricted, and unrestricted. These classifications are defined as follows:

*Net Investment in Capital Assets* - This component consists of capital assets, net of accumulated depreciation reduced by outstanding debt balances, net of unspent bond proceeds.

*Restricted* - This component consists of net position with constraints placed on their use. Constraints include those imposed by debt indentures and other agreements; grants, laws and regulations of other governments or by the Agency's governing Board of Commissioners.

*Unrestricted* - This component consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

The Agency and the Associated Power Corporations are intended to operate on a not-for-profit basis. Therefore, any balance of net position represents differences between total revenues collected, using collection rates based on estimated operating expenses and debt service, and the total actual expenses incurred. In subsequent periods of operation, excess collections (net of encumbrances) that the participating members do not direct be held by or released to the Agency, are refunded to the participating members. Estimated encumbrances at June 30, 2015 and 2014 were $2,792,000 and $4,021,000, respectively. In the event the Agency incurs a negative net position balance, the balance would be subject to recovery in collection rates under the terms of the related take-or-pay member agreements. See Note D – Projects And Related Financing.

**Deferred Outflows and Inflows of Resources** The statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred Outflows of Resources consist of excess cost on refunding of debt and pension contribution made in the current year. The excess cost on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Pension contribution made in the current year is reported as deferred outflows of resources per GASB No. 71 as the CalPERS' valuation measurement date is June 30, 2014; those contributions will be expensed in fiscal year 2016.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period(s) and will be recognized as revenue at that time. The Agency's deferred inflows of resources are comprised of regulatory credits intended to offset the effects of the collection rate process and pension plan earnings in excess of earnings projected in the CalPERS actuarial report.

**Recent Accounting Pronouncements** In June 2012, GASB issued SGAS No. 68 "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27" (GASB No. 68). The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions are also addressed. This statement is effective for the Agency for fiscal year 2015.

For fiscal year 2015, the Agency recorded a beginning net pension liability of $57,033,172 and corresponding regulatory asset of $57,033,172 in accordance with GASB No. 68 and accounting principles for regulated operations. CalPERS did not make data and calculations for fiscal year 2014 and earlier available, and as such, prior year statements were not restated.

In November 2013, GASB issued SGAS No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date" (GASB No. 71). The primary objective of GASB No. 71 is to address the contributions made to a defined benefit pension plan after the measurement date of the GASB No. 68 Pension valuation report. Effectively, pension contributions made after measurement date are recorded as deferred outflows of resources on the statement of net position. This statement is effective in conjunction with GASB No. 68.

In March 2012, GASB issued SGAS No. 65, "Items Previously Reported as Assets and Liabilities" (GASB No. 65). GASB No. 65 establishes accounting and financial reporting standards that either (a) properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expense/expenditures) or inflows of resources (revenues). This statement also limits the term "deferred" to items reported as deferred outflows of resources or deferred inflows of resources. This statement is effective for the Agency in fiscal year 2014.

In April 2013, GASB issued SGAS No. 70 "Accounting and Financial Reporting for Non-exchange Financial Guarantees." The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This statement became effective for periods beginning after June 15, 2013. There was no financial impact on the Agency.

**Use of Estimates in the Preparation of Financial Statements** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE C -- INVESTMENTS

The Agency is authorized to invest in obligations of the U.S. Government and its agencies and instrumentalities, in certificates of deposit, commercial paper, banker's acceptances, repurchase agreements, passbook savings account demand deposits, municipal bonds, the State Treasurer's LAIF pool, and in other instruments authorized by applicable sections of the Government Code of the State of California. The Agency's investments are stated at fair value.

Investments at June 30, 2015

| Description | Carrying Value | Market Value | Wtd. Avg Maturity (In years) |
|---|---|---|---|
| | (in thousands) | | |
| U.S. Agencies | $ 170,989 | $ 170,989 | 2.43 |
| TOTAL INVESTMENTS | $ 170,989 | $ 170,989 | |

Investments at June 30, 2014

| Description | Carrying Value | Market Value | Wtd. Avg Maturity (In years) |
|---|---|---|---|
| | (in thousands) | | |
| U.S. Agencies | $ 157,952 | $ 157,952 | 1.80 |
| TOTAL INVESTMENTS | $ 157,952 | $ 157,952 | |

The Agency's investment policy requires investments that assure safety of the principal, liquidity to meet specific obligations of the Agency when due, and investment quality all in compliance with California State law and the Agency's revenue bond indentures. Generally, operating investment maturities are limited to one year and reserve funds to five year maturities, except for debt service reserve funds, which are allowed maturities up to fifteen years. All U.S. Government and U.S. Government Agency securities held by the Agency are either in effect or actually AA rated.

All securities owned by, or held on behalf of, the Agency are held by either the Agency's custodian, Union Bank of California, N.A., or its revenue bond trustee, U.S. Bank Trust, N.A.

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The Agency's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of the portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

**Credit Risk** To mitigate the risk that an issuer will not fulfill its obligation to the investment, the Agency limits investments to those rated, at a minimum, A or equivalent for long/medium term notes by a nationally recognized statistical rating organization.

**Custodial Credit Risk** This is the risk that in the event of a failure of a depository financial institution, the Agency's deposits may not be returned or the Agency will not be able to recover its deposits, investments, or collateral securities that are in the possession of another party.

**Concentration of Credit Risk** This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Agency places no limit on the amounts invested in obligations of the U.S. Government and its agencies.

**Interest Rate Risk** Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. The Agency manages its exposure to interest rate risk by following a hold-to-maturity investment approach, purchasing a combination of shorter and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

## NOTE D -- PROJECTS AND RELATED FINANCING

**Financing Programs** The Agency's project construction and development programs have been individually financed by project revenue bonds that are collateralized by the Agency's assignment of all payments, revenues, and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason (that is, the take-or-pay member agreements).

Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

| Long-term debt and stated rates at June 30: | 2015 | 2014 |
|---|---|---|
| | (in thousands) | |
| Geothermal Project | | |
| 2009 Series A | | |
| Serial, 4.00-5.50% through 2025 | $ 27,835 | $ 29,915 |
| 2012 Series A | | |
| Term, 2.289% due 2023 | 10,130 | 11,355 |
| Total Geothermal Project | 37,965 | 41,270 |
| Hydroelectric Project | | |
| 1992 Refunding Series A | | |
| Term, 6.30% due 2019 | 25,565 | 26,465 |
| 2008 Refunding Series A | | |
| Term, adjustable rate-weekly reset, due 2033 | 85,160 | 85,160 |
| 2008 Refunding Series B (Taxable) | | |
| Term, adjustable rate-weekly reset, due 2021 | 2,105 | 2,365 |
| 2008 Refunding Series C | | |
| Serial, 4.00-5.00% through 2025 | 98,600 | 108,560 |
| 2010 Refunding Series A | | |
| Serial, 4.00-5.00% through 2024 | 87,765 | 94,880 |
| 2012 Refunding Series A | | |
| Serial, 5.00% through 2033 | 76,665 | 76,665 |
| 2012 Refunding Series B | | |
| Serial, 4.32% through 2025 | 7,120 | 7,120 |
| Total Hydroelectric Project | 382,980 | 401,215 |

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| Long-term debt and stated rates at June 30: | 2015 | 2014 |
|---|---|---|
| | (in thousands) | |
| Capital Facilities Project | | |
| 2010 Refunding Series A | | |
| Serial, 2.00-5.25% through 2026 | 44,655 | 48,090 |
| Total Capital Facilities Project | 44,655 | 48,090 |
| Lodi Energy Center, Issue One | | |
| 2010 Series A | | |
| Serial, 3.00-5.00% through 2020 | 28,230 | 33,095 |
| Term, 5.00% due 2025 | 36,020 | 36,020 |
| 2010 Series B (Federally Taxable – Direct Payment Build America Bonds) | | |
| Term, 7.311% due 2040 | 176,625 | 176,625 |
| Lodi Energy Center, Issue Two | | |
| 2010 Series A | | |
| Serial, 3.00-5.00% through 2019 | 18,640 | 22,800 |
| 2010 Series B (Federally Taxable – Direct Payment Build America Bonds) | | |
| Term, 4.63% due 2020 | 5,210 | 5,210 |
| Term, 5.679% due 2035 | 105,015 | 105,015 |
| Total Lodi Energy Center Project | 369,740 | 378,765 |
| Total Long-Term Debt Outstanding | 835,340 | 869,340 |
| Less: Unamortized premium (discount), net | 17,211 | 20,332 |
| Current portion | (35,615) | (34,000) |
| Total Long-Term Debt, Net | $ 816,936 | $ 855,672 |

The Agency had the following long-term debt activity during FY 2015:

| | Balance June 30, 2014 | Additions | Payments & Amortizations | Balance June 30, 2015 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Revenue Bonds | $ 869,340 | $ - | $ (34,000) | $ 835,340 |
| Unamortized premiums and discounts | 20,332 | - | (3,121) | 17,211 |
| TOTAL | $ 889,672 | $ - | $ (37,121) | $ 852,551 |

The Agency had the following long-term debt activity during FY 2014:

| | Balance June 30, 2013 | Additions | Payments & Amortizations | Balance June 30, 2014 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Revenue Bonds | $ 903,705 | $ - | $ (34,365) | $ 869,340 |
| Unamortized premiums and discounts | 23,918 | - | (3,586) | 20,332 |
| TOTAL | $ 927,623 | $ - | $ (37,951) | $ 889,672 |

Debt service requirements for each of the next five years and in five-year cumulative increments thereafter as of June 30, 2015:

| | Principal | Interest | Total |
|---|---|---|---|
| | | (in thousands) | |
| 2016 | 35,615 | 45,728 | 81,343 |
| 2017 | 37,250 | 44,114 | 81,364 |
| 2018 | 39,230 | 42,399 | 81,629 |
| 2019 | 41,365 | 40,355 | 81,720 |
| 2020 | 41,830 | 38,182 | 80,012 |
| 2021-2025 | 243,380 | 157,733 | 401,113 |
| 2026-2030 | 162,435 | 101,878 | 264,313 |
| 2031-2035 | 161,295 | 52,877 | 214,172 |
| 2036-2040 | 72,940 | 16,493 | 89,433 |
| | $ 835,340 | $ 539,759 | $ 1,375,099 |

Interest includes interest requirements for fixed rate debt at their stated rate and variable rate debt covered by interest rate swaps at their fixed swap rate.

**Redemption Provisions** As set forth in the bond indentures, the term bonds are subject to redemption prior to maturity in varying amounts at specific dates. At the option of the Agency, the bonds are also subject to early redemption at specific redemption prices and dates.

**Defeased Debt** Various bond refundings were undertaken to defease debt and realize future debt service savings. Debt was defeased by using the proceeds of the refunding issues and other available monies to irrevocably place in trust cash and U.S. Government Securities, which together with interest earned thereon, will be sufficient to pay both the interest and the appropriate maturity or redemption value of the refunded bonds as required.

Accordingly, these defeased debt issues have been considered extinguished for financial reporting purposes. At year-end, the following defeased debt remained outstanding:

| | | 2015 | 2014 |
|---|---|---|---|
| | | (in thousands) | |
| Hydroelectric: | Project No. One, 1985 Series A | $ 12,150 | $ 12,150 |
| | Project No. One, 1986 Series A | 36,960 | 36,960 |
| | Total Defeased Debt Outstanding | $ 49,110 | $ 49,110 |

**Geothermal Project** In addition to a federal geothermal leasehold, steam wells, gathering system and related facilities, the project consists of two electric generating stations (Plant 1 and Plant 2) with combined 165 MW (nameplate rating) turbine generator units utilizing low temperature geothermal steam; associated electrical, mechanical and control facilities; a heat dissipation system; a steam gathering system, a transmission tap-line, and other related facilities. Geothermal steam for the project is derived from the geothermal property, which includes well pads, access roads, steam wells and re-injection wells.

**Hydroelectric Project** The Agency contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District. In exchange, the Agency has the right to the electric output of the project for 50 years from February 1982. The Agency also has an option to purchase power from the project in excess of the District's requirements for the subsequent 50 years, subject to regulatory approval.

As part of a refinancing plan in November 2004, the Agency entered into two forward starting interest rate swaps in an initial notional amount of $85,160,000 and $1,574,000. Payments under the swap agreements with Citigroup Financial Products, Inc. began on April 2, 2008. To complete the refinancing transaction and realize the debt service savings under the 2004 swap agreement, on April 2, 2008 the Agency completed a bond refunding of certain maturities of the 1998 Hydroelectric Refunding Series A bonds totaling $85,870,000 maturing in 2023 to 2032. These fixed rate bonds were refinanced through the issuance of tax-exempt 2008 Hydroelectric Refunding Series A ($85,160,000) bonds and taxable 2008 Hydroelectric Refunding Series B ($3,165,000) bonds. Both issues are variable interest rate bonds bearing interest at weekly interest rates, payable semi-annually on July 1 and January 1 each year. To support this financing, the Agency entered into two irrevocable direct pay letter of credit agreements with Citibank N.A. The Citibank letters of credit were for a period of three years and were scheduled to expire on September 27, 2014. On September 10, 2014, the irrevocable letter of credit agreements with Citibank N.A. were terminated. Substitution letters of credit with the Bank of Montreal were issued the same day. The Bank of Montreal letters of credit are for a period of five years and expire on September 9, 2019.

The payment of principal and interest on these issues are not covered by any financial guaranty insurance policies. This 2008 Hydroelectric Refunding and the associated interest rate swaps are estimated to have reduced project debt service by $11.8 million over the next 24 years providing the Agency with an estimated economic gain (difference between the present values of the old and new debt service payments) of approximately $5.9 million.

The Agency has entered into two separate pay-fixed, receive-variable interest rate swaps to produce savings or to result in lower costs over the life of each transaction than what the Agency would have paid using fixed-rate debt. While these derivative instruments carry additional risks, the Agency's swap policy and favorable negotiations have helped to reduce such risks.

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| Associated Interest Rate Swaps starting April 2, 2008 | 2008 Hydroelectric Refunding Revenue Bonds Forward Starting Swaps – Series A | | 2008 Hydroelectric Refunding Revenue Bonds Forward Starting Swaps – Series B (Taxable) | |
|---|---|---|---|---|
| Counterparty to Interest Rate Swap | Citigroup Financial Products Inc. | | Citigroup Financial Products Inc. | |
| Notional Value of Interest Rate Swap | $ 85,160,000 | | $1,265,031 | |
| Fair Value--Due from (to) Counterparty | $(16,811,243) | | $ 276,319 | |
| Credit Downgrade Required Collateral Posting: | | | | |
| For Counterparty, Fair Value Above | $10 million | | $10 million | |
| If S&P or Moody's Credit Rating falls to | A+/A1 | | A+/A1 | |
| For Agency (Credit of Agency's Insurer National Public Finance Guarantee formerly MBIA), Fair Value Above | $10 million | | $10 million | |
| If S&P or Moody's Credit Rating falls to | A+/A1 | | A+/A1 | |
| Termination Date | July 1, 2032 | | July 1, 2032 | |
| | Terms | Rates | Terms | Rates |
| Payments to (from) Counterparty | Fixed | 3.819 % | Fixed | (5.350) % |
| Variable Payments (from) to Counterparty | 54% LIBOR+.54%* | (0.638) % | 100% of LIBOR* | 0.169 % |
| Net Interest Rate Swap Payments | | 3.181 % | | (5.181) % |
| Variable-Rate Bond Payments | SIFMA** | 0.041 % | SIFMA** | 0.200 % |
| Effective Interest Rate on Bonds | | 3.222 % | | (4.981) % |

Average to Date: *1-Month London Inter-Bank Offered Rate
**Securities Industry and Financial Market Association Municipal Swap Index (formerly the Bond Market Association Municipal Swap Index)

The total fair value of outstanding swap instruments was a net liability of $16,535,000 and $15,295,000 at June 30, 2015 and June 30, 2014, respectively. These amounts are reported as a non-current liability. The interest rate swaps beginning in FY 2013 are both ineffective hedges and considered investment derivative instruments. The change in fair value of ($1.2) million is recorded as interest expense in the Statement of Revenues, Expenses, and Changes in Net Position. The net settlement payments of interest on these investment derivative instruments total $2.6 million, which is recorded as interest expense in the Statement of Revenues, Expenses, and Changes in Net Position for both FY 2015 and FY 2014. The value of the swaps noted above reflects the estimated fair value of the swaps at June 30, 2015 as determined by the Agency's financial advisor. The fair value of the swaps will change due to notional amount, amortizations, and interest rate changes.

The following swap agreement risks are common to all the interest rate swaps. The interest rate swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings of the swap may not be realized. The Agency is exposed to interest rate risk on its pay-fixed, receive variable interest rate swaps. Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Agency's financial instruments or cash flows. As the LIBOR or SIFMA swap index decreases, the Agency's net payment on swaps increases. In addition, the Agency is exposed to interest rate risk if the counterparty to the swap defaults or if the swap is terminated. The Agency is also exposed to market access risk, the risk that it will not be able to enter credit markets or that credit will become more costly. The Agency's financial rating is tied to the credit strength of the major participants of the specific project for which each financial instrument is issued. The Agency is also exposed to market access risks caused by disruptions in the municipal bond market.

To mitigate the potential for credit risk, the swap counterparties are required by the agreement to post collateral should the fair value exceed certain thresholds as shown above. At June 30, 2015, credit ratings of the counterparties to the swaps were as follows:

| Swap Counterparty & Agency's Insurer | Standard & Poor's | Moody's |
|---|---|---|
| Citigroup Financial Products Inc. | A | A1 |
| National Public Finance Guarantee formerly MBIA (the Agency's insurer) | AA- | A3 |

The swaps utilized the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. However, an additional provision under the Schedule to the ISDA Master Agreement allows the swap to be terminated by the Agency if the counterparty's credit rating falls below A- by Standard & Poor's or A3 by Moody's. If a swap is terminated, the applicable bonds would no longer carry a synthetic fixed interest rate. In addition, if a swap has a negative fair value at the time of an early termination, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

**Combustion Turbine Project** The original project consisted of five combustion turbine units, each nominally rated at approximately 25 megawatts. Concurrent with the final project bond maturity, two units located in Roseville were acquired by an Agency member. The remaining project consists of two units in Alameda and one in Lodi. The project provides capacity during peak load periods and emergency capacity reserves. Excess capacity and energy from the project are also sold to other entities from time to time.

**Capital Facilities Project** The project consists of one 49.9 megawatt natural gas-fired steam injected combustion turbine generator unit located in Lodi, California. Wastewater is reclaimed from the City of Lodi's White Slough water pollution control facility, processed to eliminate contaminants, and used in the turbine to produce steam for power enhancement and emissions control.

**Lodi Energy Center (LEC)** The project is a 296 MW base load, combined cycle, natural gas-fired, combustion turbine generating station (one gas turbine and one steam turbine) located in Lodi, California, next to the Capital Facilities Project discussed above. Pursuant to the Lodi Energy Center Power Sales Agreement, the Agency agreed to operate the LEC and has sold all of the capacity and energy of the LEC to thirteen participants (including four non-members) in accordance with their respective Generation Entitlement Shares (GES). Each participant has agreed to unconditionally provide for its share of the operation and maintenance expenses and all capital improvements based on its GES. The LEC will be operated and maintained by the Agency under the direction of the LEC Project Management and Operations Agreement among the Agency and the LEC Project Participants.

Lodi Energy Center Revenue Bonds, Issue One provided financing for 11 project participants with 55.7857% GES. Lodi Energy Center Revenue Bonds, Issue Two provided financing for the California Department of Water Resources 33.5% GES. The Modesto Irrigation District elected to provide its own financing for its 10.7143% GES of the costs of construction of the project. Modesto Irrigation District is not liable for any Agency debt service obligations for the project.

The Issue One Series B and the Issue Two Series B bonds were issued as Taxable Subsidy Bonds constituting Build America Bonds (BABs) for the purposes of the American Recovery and Reinvestment Act of 2009. The Act provides for a direct payment to the Agency from the federal government equal to 35% of the interest costs. The direct payment was reduced by 7.3% in 2015 due to federal government budget sequestration. Such payments may continue to be affected by sequestrations.

## NOTE E -- RETIREMENT PLAN

### A. General Information about the Pension Plans

**Plan Descriptions** The Agency provides a defined benefit retirement plan to all eligible employees under the Public Employees’ Retirement System (PERS). The Plan is an agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**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. In 2012, the Public Employees’ Pension Reform Act (PEPRA) become law that implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member under PEPRA. Employees hired prior to January 1, 2013, and those new employees not meeting the PEPRA definition of new member, are considered classic members.

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

| **Hire date** | **Prior to January 1, 2013** | **On or After January 1, 2013** |
|---|---|---|
| Benefit formula | 2.5% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 full-time years | 5 full-time years |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 60 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5% | 2.0% to 2.5% |
| Required employee contribution rates | 8.00% | 6.50% |
| Required employer contribution rates | 28.234% | 28.234% |

**Employees Covered –** At June 30, 2015, the following employees were covered by the benefit terms for each Plan:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 115 |
| Inactive employees entitled to but not yet receiving benefits | 2 |
| Active employees | 149 |
| Total | 266 |

**Contributions** Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate is 7.866% of annual pay and the Agency's contribution rate is 27.605% of annual payroll. Employer contribution rates may change if plan contracts are amended.

## B. Net Pension Liability

The Agency's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**Actuarial Assumptions** The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | June 30, 2013 |
| Measurement Date | June 30, 2014 |
| Actuarial Cost Method | Entry-Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.50% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | 3.3%-14.2% (1) |
| Investment Rate of Return | 7.5% (2) |
| Mortality | (3) |

(1) Depending on age and service.
(2) Net of pension plan investment expenses, including inflation.
(3) Derived using CalPERS' specific membership data with projected on-going mortality improvement using Scale BB published by the Society of Actuaries.

**Discount Rate** The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are 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. This difference was deemed immaterial to the agent multiple-employer plan.

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. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 68 calculations through at least the 2017-2018 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed its methodology.

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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) 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 | New Strategic Allocation | Real Return Years 1-10 [1] | Real Return Years 11+ [2] |
|---|---|---|---|
| Global Equity | 47.00% | 5.25% | 5.71% |
| Global Fixed Income | 19.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 12.00% | 6.83% | 6.95% |
| Real Estate | 11.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | -0.55% | -1.05% |

[1] An expected inflation of 2.5% used for this period

[2] An expected inflation of 3.0% used for this period

## C. Changes in the Net Pension Liability

The change in the Net Pension Liability for each Plan follows:

| | Increase/(Decrease) | | |
|---|---|---|---|
| Description | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability/(Asset) |
| **Balance at June 30, 2013** | $ 124,724,269 | $ 62,183,455 | $ 62,540,814 |
| Service cost incurred | 3,220,329 | - | 3,220,329 |
| Interest on total pension liability | 9,285,364 | - | 9,285,364 |
| Differences between actual and expected experience | - | - | - |
| Change in assumption | - | - | - |
| Change in benefits | - | - | - |
| Contributions - employer | - | 5,507,642 | (5,507,642) |
| Contributions - employee | - | 1,410,488 | (1,410,488) |
| Projected earnings on investments | - | 10,868,237 | (10,868,237) |
| Differences between projected and actual earnings on plan investments | - | - | - |
| Benefit payments | (5,059,144) | (5,059,144) | - |
| Net changes | 7,446,549 | 12,727,223 | (5,280,674) |
| **Balance at June 30, 2014** | $ 132,170,818 | $ 74,910,678 | $ 57,260,140 |

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** The following presents the net pension liability of the Plan, calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

| | Discount Rate – 1% (6.50%) | Current Discount Rate (7.50%) | Discount Rate + 1% (8.50%) |
|---|---|---|---|
| **Plan's Net Pension Liability** | $ 74,338,154 | $ 57,260,140 | $ 42,989,438 |

## D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the measurement period ending June 30, 2014, the Agency incurred pension expense of $5,173,811. At June 30, 2014, the Agency has deferred outflows of resources and deferred inflows of resources related to pensions as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 5,309,739 | $ - |
| Differences between actual and expected experience | - | - |
| Changes in assumptions | - | - |
| Net differences between projected and actual earnings on plan investments | - | (4,946,843) |
| Total | $ 5,309,739 | $ (4,946,843) |

$5,309,739 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 year ended June 30, 2016. Amounts reported as deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

| Measurement Period Ended June 30: | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2015 | $ (1,236,711) |
| 2016 | (1,236,711) |
| 2017 | (1,236,711) |
| 2018 | (1,236,710) |
| 2019 | - |
| Thereafter | - |
| Total | $ (4,946,843) |

## E. Payable to the Pension Plan

At June 30, 2015, the Agency did not have an outstanding amount of contributions payable to the pension plan required for the year ended June 30, 2015.

## NOTE F -- OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Agency contracts with the CalPERS under the Public Employees' Medical and Hospital Care Act (PEMHCA) for employee medical insurance. In connection with this plan, the Agency provides medical insurance to all active employees and their families, as well as all qualified retirees (and spouses), subject to certain limitations. The Agency has maintained an actuarially based restricted fund for the sole purpose of paying medical insurance premiums for qualified retired employees (and spouses) participating in the CalPERS medical plan. In 2007, the Agency became a participant in the CalPERS California Employers' Retiree Benefit Trust (CERBT), a pre-funding OPEB plan, which is an irrevocable multi-employer trust and plan consisting of an aggregation of single-employer plans, with pooled administrative and investment functions. The Agency makes actuarially determined Annual Required Contributions (ARC) to this OPEB plan. The ARC represents the forecast funding level to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Actuarial valuations of the fund are obtained every two years, as required by CalPERS.

**Summary of certain plan provisions and benefits in effect during fiscal year ended June 30, 2015:**

| | |
|---|---|
| Required service for eligibility | Pre-1/1/2009 Hires, 5 full-time years<br>On or After 1/1/2009 Hires, 10 full-time years |
| Minimum retirement age | 50 |
| Benefit payments | Monthly for life |
| Vesting for eligible employees | Pre-1/1/2009 Hires, 100% at 5 years<br>On or After 1/1/2009 Hires, 50% at 10 years; 5%/year after |
| Maximum monthly benefit | PERS Choice Premium |

The annual required contribution and funded status of the OPEB plan were determined based on current cost trends of the CalPERS health plans in which the employees currently participate at the time of the actuarial valuation. The June 30, 2015 actuarial valuation was prepared on the basis of the OPEB assumption model, as prescribed by the CalPERS, in effect at the time of the valuation. At fiscal year-end June 30, 2015, the Agency had 149 active eligible employees and 121 retirees drawing benefits under this program.

**Trend Information for the OPEB Plan**

| Fiscal Year Ending | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| June 30, 2011* | $ 961,896 | 100.0% | - |
| June 30, 2012 | $ 1,016,826 | 100.0% | - |
| June 30, 2013 | $ 1,049,873 | 100.0% | - |
| June 30, 2014 | $ 1,154,574 | 100.0% | - |
| June 30, 2015 | $ 1,130,843 | 100.0% | - |

* The discount rate was changed from 7.75%, which was used in all prior years' actuarial valuations, to 7.61% for June 30, 2011 through June 30, 2014, as prescribed by CalPERS.

**Funded Status of the OPEB Fund**

| Actuarial Valuation Date | Actuarial Accrued Liability (a) | Actuarial Value of Assets (b) | Actuarial Accrued Unfunded Liability (a) - (b) | Funded Ratio (b) / (a) | Annual Covered Payroll (c ) | Unfunded Actuarial Accrued Liability as % of Payroll [(a) – (b)] / (c ) |
|---|---|---|---|---|---|---|
| June 30, 2008 | $ 16,114,250 | $ 12,213,980 | $ 3,900,270 | 75.8% | $ 15,491,511 | 25.2% |
| June 30, 2010 | $ 18,936,156 | $ 13,975,353 | $ 4,960,803 | 73.8% | $ 16,355,901 | 30.3% |
| June 30, 2011* | $ 21,599,763 | $ 14,464,987 | $ 7,134,776 | 67.0% | $ 16,672,248 | 42.8% |
| June 30, 2013 | $ 22,477,396 | $ 17,529,070 | $ 4,948,326 | 78.0% | $ 17,564,711 | 28.2% |
| June 30, 2015** | $ 36,724,032 | $ 22,291,159 | $14,432,873 | 60.7% | $ 17,941,846 | 80.4% |

* The discount rate was changed from 7.75%, which was used in all prior years' actuarial valuations, to 7.61% for June 30, 2011 through June 30, 2014, as prescribed by CalPERS.

** The discount rate was changed from 7.61% to 7.00% for the June 30, 2015 actuarial valuation, as prescribed by CalPERS.

The funded status of the plan and the annual required contributions are subject to periodic revision based on actual results, changes in assumptions or plan provisions, and new estimates of expected future circumstances. Future actuarial valuations will be performed every two years, as prescribed by CalPERS.

The Agency's annual required contribution (based on actuarially established rates) was determined as part of a June 30, 2015, actuarial valuation using the entry age normal actuarial cost method. The primary actuarial assumptions included: valuation using the Entry Age Normal Cost Method, 7.00% annual discount rate, payroll growth of 0.29% to 10.87%, 2.50% inflation, and maximum employer contribution increases derived from the Getzen Model for developing long-term health care cost trends.

## NOTE G -- COMMITMENTS AND CONTINGENCIES

**Power Exchange Agreement** On behalf of certain of its members, the Agency has entered into a seasonal exchange agreement with Seattle City Light whereby the companies exchange 60 megawatts of summer capacity and 90,580 megawatt hours of energy in exchange for a return of 46 megawatts of capacity and 108,696 megawatt hours of energy in the winter. The term of the agreement will terminate in May 2018.

**Power Purchase Contracts** The Agency had commitments of approximately $29.8 million in connection with various power purchase contracts as of June 30, 2015. The contracts, extending through December 2017, are normal purchases at agreed to contract prices for fixed quantities of energy. Certain of the Agency's members have individually entered into certain other long-term contracts, which the Agency dispatches and schedules for them. See Note B - Summary of Significant Accounting Policies.

**Fuel Supply Agreements** The Agency has entered into the following agreements to provide natural gas fuel supply for use in its generation resources:

- A 30-year agreement terminating in October 2023 with various natural gas pipeline management companies under which the Agency has acquired firm natural gas pipeline transportation capacity in four separate natural gas pipelines between Alberta, Canada and northern California. The estimated minimum annual natural gas transmission commitment is approximately $735,000. The Agency's firm natural gas pipeline transportation capacity is scheduled by Noble Americas Gas & Power Corp. pursuant to the term and conditions of an Asset Management Agreement for Pipeline Transportation Capacity that became effective on January 1, 2015.
- On behalf of the participants in the Combustion Turbine Project Number One and the Capital Facilities project, the Agency entered into an agreement with EDF Trading North America, LLC (EDF) effective January 1, 2013 to provide natural gas supply and scheduling, nomination, balancing and settlement services. The contract automatically renews each year on January 1, unless terminated earlier by six-months written notice by either party.
- The Agency and J.P. Morgan Ventures Energy Corporation entered into an agreement to provide the natural gas supply and nomination, imbalance, and settlement services for the Agency's Lodi Energy Center project, which began operations at the end of November 2012. Subsequent to an initial one year term, the contract may be terminated with a six-month notice of termination.
- The Agency had approximately $14.7 million of gas purchase commitments at June 30, 2015. The commitments, extending through December 2018, are normal purchases at agreed to prices for fixed quantities of gas.

**Western Area Power Administration Base Resource** A number of the Agency's members, who had a aggregate 17.53465% share through December 2014 and an aggregate share of 18.87957% beginning January 1, 2015 of the Base Resource Contract with the Western Area Power Administration to receive electric power from the Central Valley Project in California, have assigned their shares to the Agency in order to create a power resource portfolio for the mutual benefit of participating Agency members. The assignments terminate the earlier of December 31, 2024 or 60 days after Western approves a reassignment.

**Geothermal Royalties** Under terms of federal geothermal leasehold agreements, the Agency is required to pay royalties to the United States (U.S.) on the value of geothermal steam produced. Currently, the effective rate of such royalties is 3.6% of an amount based on the Agency's monthly weighted average cost of third-party wholesale electricity purchases made by Agency members participating in the Geothermal Project. The U.S. Department of the Interior, Office of Natural Resources Revenue maintains the right to periodically review and withdraw their approval or to change this methodology should operations, market conditions, or Federal regulations change.

**Geothermal Steam Production & Decommissioning** Steam for the Agency's geothermal plants comes from lands in the Geysers area, which are leased by the Agency from the federal government. The Agency operates these steam-supply areas. Operation of the geothermal plants at high generation levels, together with high steam usage by others in the same area, resulted in a decline in the steam production from the steam wells at a rate greater than expected. As a result, by April 1988, for the purpose of slowing the decline in the steam field capability, the Agency changed its steam field production from base-load to load-following and reduced average annual generation. These changes were effective in reducing the decline in steam production.

Beginning in 1991, along with other steam field operators in the area, the Agency began implementing various operating strategies to further reduce the rate of decline in steam production. The Agency has modified both steam turbine units at Plant 1 and the associated steam collection system to enable generation with lower pressure steam at higher mass-flow rates to optimize the utilization of the available steam resource.

The Agency also entered into agreements with other producers in the Geysers area to finance and construct the Southeast Geysers Effluent Pipeline Project, which was completed in September 1997 and began operating soon thereafter. The 26-mile pipeline collects wastewater from Lake County Sanitation District treatment plants at Clearlake and Middletown and delivers the wastewater to the Agency and the other Geysers steam field operators for injection into the steam field. A second pipeline enhancement project to further augment the wastewater injection program was completed in 2004.

Based on current operating protocols and forecasted operations, the Agency expects both the average and peak capacity to continue to decrease, reaching approximately 66 MWG (megawatts gross) by calendar year 2039.

Under terms of the federal geothermal leasehold agreements, which became effective August 1, 1974, the leasehold had a 10-year primary term with provision for renewal as long thereafter as geothermal steam is produced or utilized, but not longer than 40 years. At the expiration of that period, if geothermal steam is still being produced, the Agency has preferential right to renew the leasehold for a second term. The leasehold also requires the Agency to remove its leasehold improvements including the geothermal plants and steam gathering system when, and if, the Agency abandons the leasehold. These decommissioning costs are currently estimated to total approximately $29.4 million. The Agency has been collecting monies to pay the expected decommissioning costs since 2007 and currently holds approximately $12.2 million in a reserve for such purpose as of June 30, 2015.

## CLAIMS AND LITIGATION

**California Energy Crisis** During 2000 and 2001, California experienced extreme fluctuations in the prices and supplies of natural gas and electricity in much of the State. While there has been progress in addressing these issues, uncertainty remains. As a result, no assurance can be given that measures undertaken, together with measures to be taken in the future, will prevent the recurrence of shortages, price volatility or other energy problems that have adversely affected California electric utilities in the past. The Agency has settled with the plaintiffs in related litigation, and while the settlement has been approved by FERC, there are still some claims by others that remain ongoing. Although the Agency considers these claims to be lacking in merit, no assurance thereof can be given until all proceedings are finally concluded.

**Greenhouse Gas (GHG) Emissions** The California Global Warming Solutions Act of 2006 (also known as California Assembly Bill 32 or AB 32) requires the gradual reduction of state-wide GHG emissions to the 1990 level by 2020. The California Air Resources Board (CARB) is the state agency charged with monitoring GHG levels and adopting regulations to implement and enforce AB 32. The CARB has approved various regulations, including regulations that established a state-wide, comprehensive ‘‘cap-and-trade’’ program that sets a gradually declining limit (or ‘‘cap’’) on the amount of GHGs that may be emitted by the major sources of GHG emissions each year. GHG emissions are measured in metric tons (MT) of carbon dioxide-equivalent greenhouse gases ($CO_{2e}$) per year. The cap and trade program’s first two-year compliance period, which began January 1, 2013, applies to the electricity generation and large industrial sectors. The next compliance period, from January 1, 2015 through December 31, 2017, expanded to include the natural gas supply and transportation sectors, effectively covering all the capped sectors until 2020.

The Agency's Lodi Energy Center gas plant, Steam Injected Gas Turbine gas plant and electricity imports (purchased power) are subject to the compliance rules established by CARB for the cap-and-trade program. As such, the Agency acquires sufficient compliance instruments to cover its compliance obligations or receives transfers of required compliance instruments from its project participants. At June 30, 2015, the Agency had a cumulative compliance obligation of 1,185,797 MT with 1,543,824 MT of acquired allowances to meet its compliance obligation.

**Other Factors Affecting the Electric Utility Industry** Electric industry market participants, such as the Agency and its members, continue to face numerous potential risks and uncertainties including, but not limited to, significant volatility in energy prices and increased transmission and ancillary services costs; new federal and state renewable energy, operating efficiency, and environmental standards; and, global pressures on economic and financial market conditions. The Agency and its members continue to study and to take various actions in an effort to mitigate and manage these risk and uncertainties. However, the Agency cannot predict either the ultimate outcome of these ongoing changes or whether such outcome will have a material adverse effect on its financial position or results of operations.

**Other Legal Matters** The Agency is engaged in various legal proceedings before federal and state courts and various administrative tribunals incidental to the Agency's operations.

Based on its review of the aforementioned proceedings with outside legal counsel, the Agency believes that the ultimate aggregate liability, if any, resulting from these proceedings will not have a materially adverse effect on the combined financial position or results of operations of the Agency.

## NOTE H – SUBSEQUENT EVENTS

On September 9, 2015, a major wildfire (The Valley Fire) occurred in the California counties of Lake, Napa, and Sonoma. The fire burned approximately 74,000 acres and destroyed approximately 1,960 structures including homes, commercial properties, and other minor structures. The Agency's Geysers geothermal and effluent projects are located in Lake County, and some of those facilities were damaged in the fire. Damage and reparation costs are estimated to be $2.4 million at this time. A Presidential Disaster Declaration was issued on September 22, 2015. Public Assistance was added to the Disaster Declaration on October 9, 2015. The Agency will seek cost recovery from its insurance policy and the public assistance grants and does not anticipate a material financial impact resulting from the fire damages.

The Agency and J.P. Morgan Ventures Energy Corporation (JPMorgan) have entered into an agreement to provide the gas supply and nomination, imbalance, and settlement services for the Agency's Lodi Energy Center project, which began operations at the end of November 2012. In March 2014, JPMorgan announced that it has entered into an agreement with Mercuria Energy Group Limited (MEG) whereby, MEG will acquire JPMorgan's physical commodities business, including the gas supply and nomination, imbalance and settlement services. The transaction closed in October 2014. The Agency is current working with J.P. Morgan Ventures to assign this contract to Mercuria Energy Gas Trading LLC.

# REQUIRED SUPPLEMENTAL INFORMATION

## SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

### NORTHERN CALIFORNIA POWER AGENCY
### AND ASSOCIATED POWER CORPORATIONS

**Schedule of Changes in the Net Pension Liability and Related Ratios**
**Last 10 Years ***

| | | FY 2015 |
|---|---|---|
| **Total Pension Liability** | | |
| Service cost | $ | 3,220,329 |
| Interest on total pension liability | | 9,285,364 |
| Differences between expected and actual experience | | - |
| Changes in assumptions | | - |
| Changes in benefits | | - |
| Benefit payments, including refunds of employee contributions | | (5,059,144) |
| **Net change in total pension liability** | | 7,446,549 |
| **Total pension liability - beginning** | | 124,724,269 |
| **Total pension liability - ending (a)** | $ | 132,170,818 |
| | | |
| **Plan fiduciary net position** | | |
| Contributions - employer | $ | 5,507,642 |
| Contributions - employee | | 1,410,488 |
| Net investment income | | 10,868,237 |
| Benefit payments | | (5,059,144) |
| **Net change in plan fiduciary net position** | | 12,727,223 |
| **Plan fiduciary net position - beginning** | | 62,183,455 |
| **Plan fiduciary net position - ending (b)** | $ | 74,910,678 |
| | | |
| **Net pension liability - ending (a)-(b)** | $ | 57,260,140 |
| | | |
| Plan fiduciary net position as a percentage of the total pension liability | | 56.68% |
| | | |
| Covered - employee payroll | $ | 17,596,462 |
| | | |
| Net pension liability as percentage of covered-employee payroll | | 325.41% |

**Notes to Schedule:**

**Benefit changes** The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers to Two Years Additional Service Credit (aka Golden Handshakes).

**Changes in assumptions** There were no changes in assumptions.

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

# SCHEDULE OF PLAN CONTRIBUTIONS

## NORTHERN CALIFORNIA POWER AGENCY
## AND ASSOCIATED POWER CORPORATIONS

**Schedule of Plan Contributions**
**Last 10 Years ***

| | | FY 2015 |
|---|---|---|
| Actuarially Determined Contribution | $ | 5,029,697 |
| Contributions in Relation to the Actuarially Determined Contribution | | (5,507,642) |
| Contribution Deficiency (Excess) | $ | (477,945) |
| Covered-Employee Payroll[1] | $ | 17,596,462 |
| Contributions as a Percentage of Covered-Employee Payroll[1] | | 31.30% |

[1] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Pensionable earnings are covered employee payroll reduced for earnings and other earnings adjustments not subject to pension contributions.

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

OTHER FINANCIAL INFORMATION

COMBINING STATEMENT OF NET POSITION

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

(000's omitted)

| | June 30, 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | GENERATING & TRANSMISSION RESOURCES | | | | | | | | | |
| ASSETS | Geothermal | Hydroelectric | Multiple Capital Facilities | CT No. One | Lodi Energy Center | Transmission | Purchased Power & Transmission | Associated Member Services | Other Agency | Combined |
| CURRENT ASSETS | | | | | | | | | | |
| Cash and cash equivalents | $ 1 | $ - | $ 1 | $ 1 | $ 71 | $ - | $ - | $ 124 | $ 45,395 | $ 45,593 |
| Investments | - | - | - | - | - | - | - | - | 24,067 | 24,067 |
| Accounts receivable | | | | | | | | | | |
| Participants | - | - | - | - | - | - | - | 24 | - | 24 |
| Other | - | - | - | - | - | - | 1,947 | - | 180 | 2,127 |
| Interest receivable | - | - | - | - | 12 | - | 33 | - | 41 | 86 |
| Inventory and supplies - at average cost | 3,551 | 1,079 | 642 | 1,402 | 1,475 | - | - | - | - | 8,149 |
| Prepaid expenses | 299 | 285 | 32 | 36 | 253 | - | - | - | 550 | 1,455 |
| Due from Agency and other programs* | 13,433 | 12,143 | 1,896 | (1,484) | 14,476 | - | 15,320 | 5,368 | (61,152) | - |
| TOTAL CURRENT ASSETS | 17,284 | 13,507 | 2,571 | (45) | 16,287 | - | 17,300 | 5,516 | 9,081 | 81,501 |
| RESTRICTED ASSETS | | | | | | | | | | |
| Cash and cash equivalents | 5,411 | 16,671 | 992 | - | 11,763 | - | 1,669 | - | 21,080 | 57,586 |
| Investments | 17,884 | 39,174 | 4,792 | - | 14,447 | - | 18,620 | - | 52,005 | 146,922 |
| Interest receivable | 37 | 98 | 16 | - | 18 | - | - | - | 92 | 261 |
| TOTAL RESTRICTED ASSETS | 23,332 | 55,943 | 5,800 | - | 26,228 | - | 20,289 | - | 73,177 | 204,769 |
| ELECTRIC PLANT | | | | | | | | | | |
| Electric plant in service | 568,691 | 393,706 | 64,826 | 36,245 | 423,410 | 7,736 | - | 410 | 5,052 | 1,500,076 |
| Less: accumulated depreciation | (524,213) | (233,646) | (41,732) | (33,938) | (37,734) | (7,715) | - | (277) | (2,157) | (881,412) |
| | 44,478 | 160,060 | 23,094 | 2,307 | 385,676 | 21 | - | 133 | 2,895 | 618,664 |
| Construction work-in-progress | - | - | - | - | 44 | - | - | - | - | 44 |
| TOTAL ELECTRIC PLANT | 44,478 | 160,060 | 23,094 | 2,307 | 385,720 | 21 | - | 133 | 2,895 | 618,708 |
| OTHER ASSETS | | | | | | | | | | |
| Regulatory assets | 3,004 | 158,387 | 14,619 | - | 16,391 | (21) | - | - | 57,279 | 249,659 |
| TOTAL ASSETS | 88,098 | 387,897 | 46,084 | 2,262 | 444,626 | - | 37,589 | 5,649 | 142,432 | 1,154,637 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | | | |
| Excess costs on refundings of debt | - | 59,660 | 2,454 | - | - | - | - | - | - | 62,114 |
| Pension contribution | - | - | - | - | - | - | - | - | 5,310 | 5,310 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | - | 59,660 | 2,454 | - | - | - | - | - | 5,310 | 67,424 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 88,098 | $ 447,557 | $ 48,538 | $ 2,262 | $ 444,626 | $ - | $ 37,589 | $ 5,649 | $ 147,742 | $ 1,222,061 |

* Eliminated in Combination

COMBINING STATEMENT OF NET POSITION

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

(000's omitted)

| | June 30, 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | GENERATING & TRANSMISSION RESOURCES | | | | | | | | | |
| LIABILITIES | Geothermal | Hydroelectric | Multiple Capital Facilities | CT No. One | Lodi Energy Center | Transmission | Purchased Power & Transmission | Associated Member Services | Other Agency | Combined |
| CURRENT LIABILITIES | | | | | | | | | | |
| Accounts payable | $ 667 | $ 706 | $ 2 | $ 1 | $ 3,463 | $ - | $ 9,486 | $ - | $ 9,137 | $ 23,462 |
| Member advances | 791 | - | - | - | - | - | - | 202 | - | 993 |
| Operating reserves | 6,995 | 250 | 513 | 250 | 13,177 | - | - | - | - | 21,185 |
| Current portion of long-term debt | 3,445 | 19,105 | 3,585 | - | 9,480 | - | - | - | - | 35,615 |
| Accrued interest payable | 835 | 8,839 | 881 | - | 1,414 | - | - | - | - | 11,969 |
| TOTAL CURRENT LIABILITIES | 12,733 | 28,900 | 4,981 | 251 | 27,534 | - | 9,486 | 202 | 9,137 | 93,224 |
| NON-CURRENT LIABILITIES | | | | | | | | | | |
| Net pension liability | - | - | - | - | - | - | - | - | 57,260 | 57,260 |
| Operating reserves and other deposits | 13,690 | 13,382 | - | - | 5,491 | - | 20,322 | 124 | 73,176 | 126,185 |
| Interest rate swap liability | - | 16,535 | - | - | - | - | - | - | - | 16,535 |
| Long-term debt, net | 34,653 | 377,614 | 42,237 | - | 362,432 | - | - | - | - | 816,936 |
| TOTAL NON-CURRENT LIABILITIES | 48,343 | 407,531 | 42,237 | - | 367,923 | - | 20,322 | 124 | 130,436 | 1,016,916 |
| TOTAL LIABILITIES | 61,076 | 436,431 | 47,218 | 251 | 395,457 | - | 29,808 | 326 | 139,573 | 1,110,140 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | | | |
| Regulatory credits | 21,414 | 4,031 | 1,158 | 2,470 | 44,637 | - | - | 133 | 3,141 | 76,984 |
| Pension earnings | - | - | (1) | - | - | - | - | - | 4,947 | 4,946 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 21,414 | 4,031 | 1,157 | 2,470 | 44,637 | - | - | 133 | 8,088 | 81,930 |
| NET POSITION | | | | | | | | | | |
| Net investment in capital assets | (7,308) | (33,432) | (6,761) | - | (13,470) | - | - | - | - | (60,971) |
| Restricted | 7,935 | 43,162 | 4,919 | - | 8,672 | - | - | - | - | 64,688 |
| Unrestricted | 4,981 | (2,635) | 2,005 | (459) | 9,330 | - | 7,781 | 5,190 | 81 | 26,274 |
| TOTAL NET POSITION | 5,608 | 7,095 | 163 | (459) | 4,532 | - | 7,781 | 5,190 | 81 | 29,991 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | $ 88,098 | $ 447,557 | $ 48,538 | $ 2,262 | $ 444,626 | $ - | $ 37,589 | $ 5,649 | $ 147,742 | $ 1,222,061 |

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

(000's omitted)



| | For the Year Ended June 30, 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | GENERATING & TRANSMISSION RESOURCES | | | | | | | | | |
| | Geothermal | Hydroelectric | Multiple Capital Facilities | CT No. One | Lodi Energy Center | Transmission | Purchased Power & Transmission | Associated Member Services | Other Agency | Combined |
| **SALES FOR RESALE** | | | | | | | | | | |
| Participants | $ 5,465 | $ 42,204 | $ 8,184 | $ 4,129 | $ 20,612 | $ - | $ 185,770 | $ 21,382 | $ 99 | $ 287,845 |
| Other third-party | 29,859 | 10,405 | 126 | 345 | 71,198 | - | 24,109 | - | - | 136,042 |
| TOTAL SALES FOR RESALE | 35,324 | 52,609 | 8,310 | 4,474 | 91,810 | - | 209,879 | 21,382 | 99 | 423,887 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| Purchased power | - | - | - | - | 7,177 | - | 145,856 | - | - | 153,033 |
| Operations | 14,188 | 3,131 | 1,171 | 1,084 | 54,029 | - | 5,648 | 11,366 | - | 90,617 |
| Transmission | 1,185 | 1,582 | 12 | 80 | 138 | - | 57,138 | 4 | - | 60,139 |
| Depreciation | 4,544 | 9,400 | 2,212 | 178 | 14,600 | 16 | - | 55 | 135 | 31,140 |
| Maintenance | 6,478 | 3,242 | 1,418 | 1,913 | 8,546 | - | - | 62 | - | 21,659 |
| Administrative and general | 4,055 | 4,271 | 525 | 558 | 4,112 | - | - | 7,473 | 1,090 | 22,084 |
| Intercompany (sales) purchases, net * | (843) | 317 | 119 | 97 | 432 | - | - | (122) | - | - |
| TOTAL OPERATING EXPENSES | 29,607 | 21,943 | 5,457 | 3,910 | 89,034 | 16 | 208,642 | 18,838 | 1,225 | 378,672 |
| NET OPERATING REVENUES | 5,717 | 30,666 | 2,853 | 564 | 2,776 | (16) | 1,237 | 2,544 | (1,126) | 45,215 |
| **OTHER (EXPENSES) REVENUES** | | | | | | | | | | |
| Interest expense | (1,599) | (24,708) | (2,101) | - | (16,477) | - | - | - | - | (44,885) |
| Interest income | 160 | 371 | 60 | - | 179 | - | 130 | 10 | 519 | 1,429 |
| Other | 32 | (232) | 659 | 4 | 4,214 | - | - | 31 | 488 | 5,196 |
| TOTAL OTHER EXPENSES | (1,407) | (24,569) | (1,382) | 4 | (12,084) | - | 130 | 41 | 1,007 | (38,260) |
| **FUTURE RECOVERABLE AMOUNTS** | (1,507) | (3,357) | (1,464) | - | 3,773 | 16 | - | - | 247 | (2,292) |
| **REFUNDS TO PARTICIPANTS** | (1,801) | (1,178) | 14 | (130) | 459 | - | (1,503) | (2,252) | (514) | (6,905) |
| **INCREASE IN NET POSITION** | 1,002 | 1,562 | 21 | 438 | (5,076) | - | (136) | 333 | (386) | (2,242) |
| **NET POSITION, Beginning of year** | 4,606 | 5,533 | 142 | (897) | 9,608 | - | 7,917 | 4,857 | 467 | 32,233 |
| **NET POSITION, End of Year** | $ 5,608 | $ 7,095 | $ 163 | $ (459) | $ 4,532 | $ - | $ 7,781 | $ 5,190 | $ 81 | $ 29,991 |

* Eliminated in Combination

OTHER FINANCIAL INFORMATION

COMBINING STATEMENT OF CASH FLOW

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS
(000's omitted)

For the Year Ended June 30, 2015

| | GENERATING & TRANSMISSION RESOURCES | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Geothermal | Hydroelectric | Mulitple Capital Facilities | CT No. One | Lodi Energy Center | Transmission | Purchased Power & Transmission | Associated Member Services | Other Agency | Combined Total |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | | | | | |
| Received from participants | $ 3,078 | $ 41,964 | $ 8,100 | $ 2,670 | $ 19,187 | $ - | $ 185,788 | $ 21,385 | $ 527 | $ 282,699 |
| Received from others | 29,958 | 10,408 | 127 | 349 | 71,198 | - | 25,459 | - | (20) | 137,479 |
| Payments for employee services | (8,130) | (3,538) | (696) | (944) | (4,166) | - | - | (7,691) | (6,953) | (32,118) |
| Payments to suppliers for goods and services | (15,204) | (8,063) | (2,017) | (2,435) | (60,493) | - | (217,168) | (11,239) | (9,945) | (326,564) |
| Payments from(to) other programs * | 842 | (317) | (119) | (97) | (432) | - | - | 123 | - | - |
| NET CASH FROM OPERATING ACTIVITIES | 10,544 | 40,454 | 5,395 | (457) | 25,294 | - | (5,921) | 2,578 | (16,391) | 61,496 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | | | | | |
| Proceeds from maturities and sales of investments | 11,211 | 26,613 | 3,901 | - | 23,743 | - | 15,693 | - | 49,858 | 131,019 |
| Interest received on cash and investments | 146 | 258 | 38 | - | 211 | - | 146 | 10 | 218 | 1,027 |
| Purchase of investments | (12,782) | (36,820) | (4,548) | - | (21,081) | - | (15,682) | - | (52,880) | (143,793) |
| NET CASH FROM INVESTING ACTIVITIES | (1,425) | (9,949) | (609) | - | 2,873 | - | 157 | 10 | (2,804) | (11,747) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | | | | | | |
| Acquisition and construction of electric plant | (188) | (24) | - | - | (85) | - | - | (81) | (613) | (991) |
| Interest paid on long-term debt | (1,743) | (18,537) | (2,184) | - | (17,420) | - | - | - | - | (39,884) |
| Principal repayment on long-term debt | (3,305) | (18,235) | (3,435) | - | (9,025) | - | - | - | - | (34,000) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (5,236) | (36,796) | (5,619) | - | (26,530) | - | - | (81) | (613) | (74,875) |
| **CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | | | | | | |
| Other proceeds | 32 | (232) | 658 | 4 | 4,216 | - | - | 31 | 350 | 5,059 |
| Refunds to participants | (1,800) | (1,178) | 14 | (130) | 458 | - | (1,503) | (2,252) | (514) | (6,905) |
| Payments from(to) other programs * | (1,647) | (1,566) | (290) | 583 | (2,888) | - | 8,116 | (288) | (2,020) | - |
| NET CASH FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES | (3,415) | (2,976) | 382 | 457 | 1,786 | - | 6,613 | (2,509) | (2,184) | (1,846) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 468 | (9,267) | (451) | - | 3,423 | - | 849 | (2) | (21,992) | (26,972) |
| Beginning of year | 4,944 | 25,938 | 1,444 | 1 | 8,411 | - | 820 | 126 | 88,467 | 130,151 |
| End of year | $ 5,412 | $ 16,671 | $ 993 | $ 1 | $ 11,834 | $ - | $ 1,669 | $ 124 | $ 66,475 | $ 103,179 |
| | - | - | - | - | - | - | - | - | - | |

* Eliminated in Combination

OTHER FINANCIAL INFORMATION

COMBINING STATEMENT OF CASH FLOW - Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS
(000's omitted)



| | For the Year Ended June 30, 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | GENERATING & TRANSMISSION RESOURCES | | | | | | | | | |
| | Geothermal | Hydroelectric | Mulitple Capital Facilities | CT No. One | Lodi Energy Center | Transmission | Purchased Power & Transmission | Associated Member Services | Other Agency | Combined |
| **RECONCILIATION OF NET OPERATING REVENUES TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | | | | | | | | | |
| Net operating revenues | $ 5,717 | $ 30,668 | $ 2,853 | $ 564 | $ 2,775 | $ (16) | $ 1,237 | $ 2,544 | $ (1,127) | $ 45,215 |
| Adjustments to reconcile net operating revenues to net cash from operating activities: | | | | | | | | | | |
| Depreciation | 4,544 | 9,401 | 2,212 | 178 | 14,599 | 16 | - | 55 | 135 | 31,140 |
| | 10,261 | 40,069 | 5,065 | 742 | 17,374 | - | 1,237 | 2,599 | (992) | 76,355 |
| **CASH FLOWS IMPACTED BY CHANGES IN** | | | | | | | | | | |
| Accounts receivable | 99 | 3 | - | 4 | - | - | 546 | (24) | (20) | 608 |
| Inventory and prepaid expense | (154) | 42 | 5 | 6 | (262) | - | - | - | (298) | (661) |
| Operating reserves and other deposits | 3,659 | 1,069 | 417 | 257 | 6,262 | - | 822 | (2) | (15,798) | (3,314) |
| Regulatory credits | (2,388) | (240) | (83) | (1,458) | (1,425) | - | - | 28 | 426 | (5,140) |
| Accounts payable | (933) | (489) | (9) | (8) | 3,345 | - | (8,526) | (23) | 291 | (6,352) |
| NET CASH FROM OPERATING ACTIVITIES | $ 10,544 | $ 40,454 | $ 5,395 | $ (457) | $ 25,294 | $ - | $ (5,921) | $ 2,578 | $ (16,391) | $ 61,496 |
| | - | - | - | - | - | - | - | - | - | - |
| **CASH AND CASH EQUIVALENTS AS STATED IN THE COMBINED STATEMENT OF NET POSITION** | | | | | | | | | | |
| Cash and cash equivalents - current | $ 1 | $ - | $ 1 | $ 1 | $ 71 | $ - | $ - | $ 124 | $ 45,395 | $ 45,593 |
| Cash and cash equivalents - restricted | 5,411 | 16,671 | 992 | - | 11,763 | - | 1,669 | - | 21,080 | 57,586 |
| End of year | $ 5,412 | $ 16,671 | $ 993 | $ 1 | $ 11,834 | $ - | $ 1,669 | $ 124 | $ 66,475 | $ 103,179 |
| | - | - | - | - | - | - | - | - | - | - |

GENERATION ENTITLEMENT SHARES - UNAUDITED

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

| | Table of Generation Entitlement Shares | | | | | LEC Debt Shares | |
|---|---|---|---|---|---|---|---|
| | Geothermal Project No. 3 | Hydroelectric Project No. One | Capital Facilities Project | Combustion Turbine No. One | Lodi Energy Center (LEC) | LEC Indenture Group A | LEC Indenture Group B |
| **NCPA Member Participants:** | | | | | | | |
| Alameda | 16.8825% | 10.0000% | 19.0000% | 21.8200% | | | |
| BART | | | | | 6.6000% | 11.8310% | |
| Biggs | 0.2270% | | | 0.1970% | 0.2679% | 0.4802% | |
| Gridley | 0.3360% | | | 0.3500% | 1.9643% | 3.5212% | |
| Healdsburg | 3.6740% | 1.6600% | | 5.8330% | 1.6428% | 2.9448% | |
| Lodi | 10.2800% | 10.3700% | 39.5000% | 13.3930% | 9.5000% | 17.0295% | |
| Lompoc | 3.6810% | 2.3000% | 5.0000% | 5.8330% | 2.0357% | 3.6491% | |
| Palo Alto | | 22.9200% | | | | | |
| Plumas-Sierra REC | 0.7010% | 1.6900% | | 1.8170% | 0.7857% | 1.4084% | |
| Roseville | 7.8830% | 12.0000% | 36.5000% | | | | |
| Santa Clara | 44.3905% | 37.0200% | | 41.6670% | 25.7500% | 46.1588% | |
| Ukiah | 5.6145% | 2.0400% | | 9.0900% | 1.7857% | 3.2010% | |
| **Other Participants:** | | | | | | | |
| Azuza | | | | | 2.7857% | 4.9936% | |
| California Dept. of Water Resources | | | | | 33.5000% | | 100.0000% |
| Modesto Irrigation District | | | | | 10.7143% | | |
| Power & Water Resources Pooling Agency | | | | | 2.6679% | 4.7824% | |
| Turlock Irrigation District | 6.3305% | | | | | | |
| | 100.0000% | 100.0000% | 100.0000% | 100.0000% | 100.0000% | 100.000% | 100.000% |
| | Note A | Note A, B | | Note A | Note B | | |

Note A: Project Entitlement shares are after transfers among participants.

Note B: Project Generation Shares may vary from project cost shares due to varied financing and fuel supply arrangements.