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, 2016 and 2015

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

Reports on Audit of Combined Financial Statements

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For the Years Ended June 30, 2016 and 2015

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Commissioners
Northern California Power Agency and Associated Power Corporations

Report on the Financial Statements

We have audited the accompanying combined financial statements of Northern California Power Agency and Associated Power Corporations (the Agency), which comprise the combined statement of net position as of June 30, 2016 and 2015, and the related combined statements of revenue, expenses and change in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Northern California Power Agency and Associated Power Corporations as of June 30, 2016 and 2015, and the combined results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the net pension liability and related ratios, and the schedule of plan contributions as identified in the table of contents be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's combined financial statements. The combining statement of net position, combining statement of revenues, expenses and changes in net position, combining cash flows as of and for the years ended June 30, 2016 and 2015 (combining financial statements) are presented for purposes of additional analysis and is not a required part of the combined financial statements.

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

The schedule of generation entitlement shares has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Moss Adams LLP

Portland, Oregon
October 19, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

The management of Northern California Power Agency (the Agency or NCPA) offers the following narrative discussion and analysis of its financial performance for the years ended June 30, 2016 and 2015. 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 to provide cost effective wholesale power, energy-related services, and advocacy on behalf of public power consumers. The Agency's purposes are 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.

NCPA 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.

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, 2016, the Agency adopted GASB Statement of Government Accounting Standards No. 72, Fair Value Measurement and Application. This Statement establishes standards for fair value measurements of assets and liabilities. The definition of *fair value* is the price in an orderly transaction between market participants at the measurement date. No adjustments were needed as a result of adopting this Statement.

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, deferred inflows of resources, and net position 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, 2016, 2015, and 2014.

Condensed Statement of Net Position	June 30, (in thousands) 2016	2015	2014
Assets			
Current assets	$ 83,366	$ 81,501	$ 84,293
Restricted assets	211,759	204,769	215,718
Electric plant, net	588,870	618,708	648,857
Other assets	249,574	249,659	194,919
Total Assets	1,133,569	1,154,637	1,143,787
Deferred outflows of resources	63,441	67,424	69,586
	$ 1,197,010	$ 1,222,061	$ 1,213,373
Liabilities and Net Position			
Long-term debt, net	$ 776,982	$ 816,936	$ 855,672
Current liabilities	91,653	93,224	94,475
Non-current liabilities	214,612	199,980	148,869
Total Liabilities	1,083,247	1,110,140	1,099,016
Deferred inflows of resources	85,800	81,930	82,124
Net position:			
Net investment in capital assets	(62,193)	(60,971)	(60,797)
Restricted	66,282	64,688	66,326
Unrestricted	23,874	26,274	26,704
	$ 1,197,010	$ 1,222,061	$ 1,213,373

Condensed Statements of Revenues, Expenses and Changes in Net Position	Years Ended June 30, (in thousands) 2016	2015	2014
Operating Revenues	$ 452,645	$ 423,887	$ 405,185
Operating expenses	(407,051)	(378,672)	(340,669)
Net operating revenues	45,594	45,215	64,516
Other expenses	(38,860)	(38,260)	(40,648)
Future refundable costs	(140)	(2,292)	(17,207)
Refunds to participants	(8,622)	(6,905)	(9,833)
Decrease in net position	(2,028)	(2,242)	(3,172)
Net position, beginning of year	29,991	32,233	35,405
Net position, end of year	$ 27,963	$ 29,991	$ 32,233

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets

2016 Compared to 2015 - Current assets increased $1.9 million or 2.3% from the prior year, primarily due to net cash inflow from operating and investing activities offset by decrease in California Independent System Operator (CAISO) receivables.

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.

Restricted Assets

2016 Compared to 2015 - Restricted assets increased $7.0 million or 3.4% from the prior year. This is primarily a result of net participants' contributions to their General Operating Reserves of $9.0 million and collections of budgeted reserves and deposits of $3.6 million offset by participants' withdrawals from their General Operating Reserves of $5.6 million.

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.

Electric Plant, net

2016 Compared to 2015 - The Agency has invested approximately $588.9 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2016. Net utility plant comprises approximately 49.2% of the Agency's assets. The $29.8 million or 4.8% decrease from the prior year consists of $30.6 million in depreciation, offset by net capital expenditures of $0.8 million. For additional detail, refer to Note B – Significant Accounting Policies.

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.

Other Assets

2016 Compared to 2015 - Other assets decreased $0.1 million or 0.3 % compared to 2015.

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.

Deferred Outflows

2016 Compared to 2015 - Total deferred outflows of resources decreased $4.0 million or 5.9% due to the scheduled amortization of excess of cost on refunding of debt of $7.8 million offset by increase of deferred pension contribution of $3.8 million.

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.

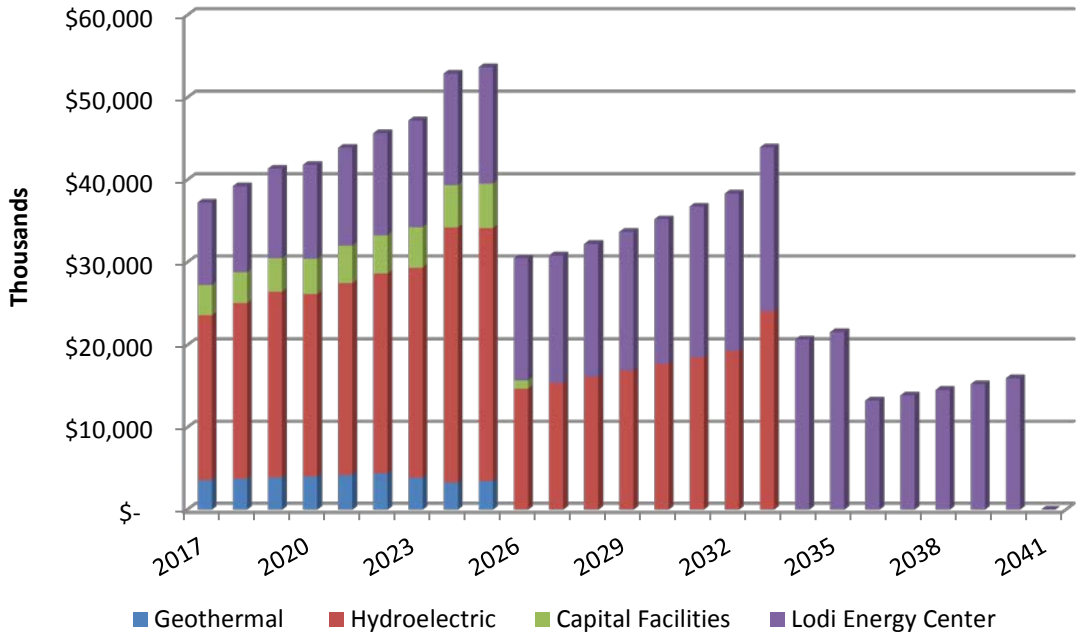
LIABILITIES

Long-Term Debt, net

2016 Compared to 2015 - Long-term debt, net decreased $40.0 million or 4.9% in 2016 as a result of scheduled principal payments of $35.6 million, net premium amortization of $2.7 million and net increase in current portion of long-term debt of $1.6 million. For additional detail, refer to Note E – Projects and Related Financing.

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 E – Projects and Related Financing.

The following table shows the Agency's scheduled annual debt service principal payments through FY 2040 as of June 30, 2016:



Current Liabilities

2016 Compared to 2015 - Current liabilities decreased by $1.6 million or 1.7% in 2016. This is primarily due to decreases in operating reserves of $3.6 million and decreases in accrued interest of $0.6 million offset by increases in accounts payable of $1.0 million and increases in current portion of long-term debt of $1.6 million.

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.

Other Non-Current Liabilities

2016 Compared to 2015 - Non-current liabilities increased by a net of $14.6 million or 7.3% in 2016. This was primarily due to increased net pension liability of $0.5 million, increased interest rate swap liability of $5.7 million and increased operating reserves of $8.4 million for participants' budget collections.

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.

Deferred Inflows

2016 Compared to 2015 – Total deferred inflows of resources increased $3.9 million or 4.7% due to the recognition of certain revenues related to the inventory and prepaids and higher than expected actuarial pension earnings to be adjusted in future collections.

2015 Compared to 2014 – Total deferred inflows of resources decreased $0.2 million or 0.2% 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.

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 E to the Combined Financial Statements.

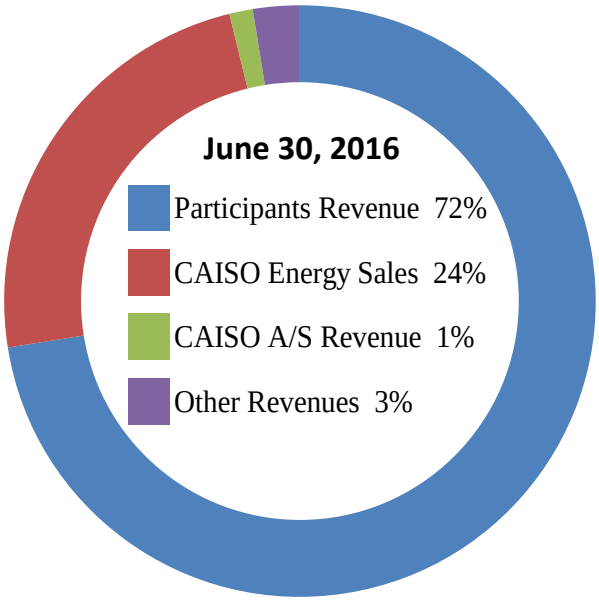
Operating Revenues

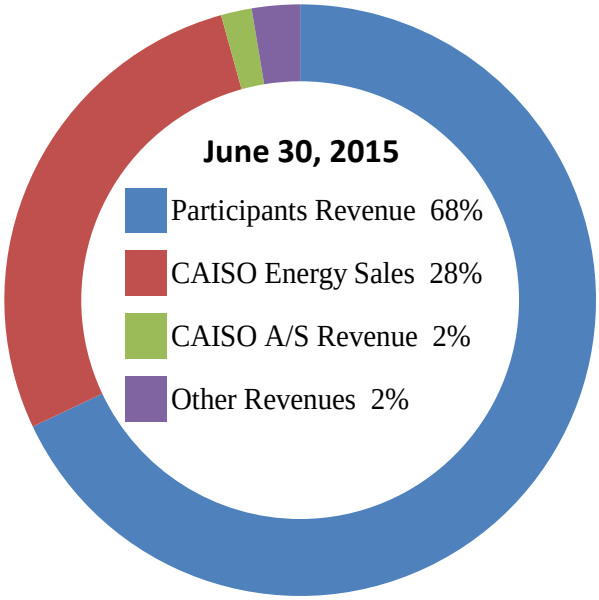
Operating revenues consist of Participants Revenue, California Independent System Operator (CAISO) Energy Sales and Ancillary Services (A/S) Revenues and Other Revenues.

2016 Compared to 2015 - Operating revenues for fiscal year 2016 were approximately $28.8 million or 6.8% higher than in the prior fiscal year. This was the net result of the following: (1) higher operating revenues from Agency participants of $40.2 million or 14.0% due to higher collections for CAISO costs and energy purchases, and (2) lower other third party revenues of $11.5 million due to reduced generation resulting in decreased energy sales into the CAISO market from generation plants.

2015 Compared to 2014 - Operating 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 CAISO market from the generation plants; and (2) lower operating revenues from Agency participants of $32.2 million or 10.1% due to lowered budget requirements of plant operations.

OPERATING REVENUES BY SOURCES



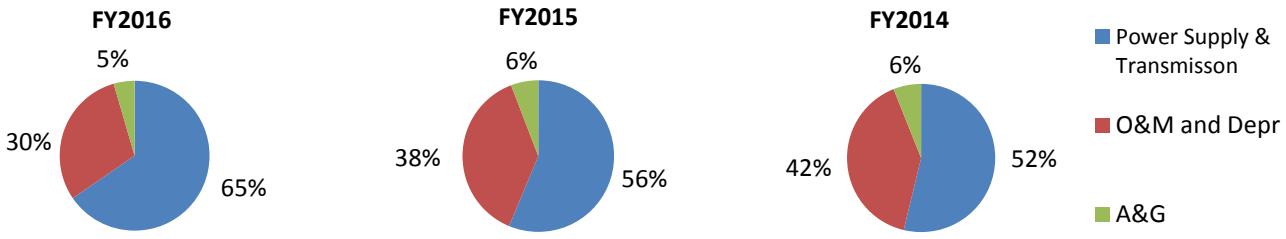


Operating Expenses

2016 Compared to 2015 - Operating expenses were $407.0 million in FY 2016, an increase of $28.4 million from FY 2015. Purchased power expense was $29.5 million higher in 2016 mainly due to increased energy purchased to fullfil energy requirements. Operations expense decreased $21.5 million primarily due to decreased fuel usage for the LEC. The LEC generated 1,076.9 MWh in FY 2016 compared to 1,668.7 MWh in FY 2015. Maintenance expenses were $1.0 million higher than in FY 2015 due to increased plant maintenance costs. Additionally, the increase in transmission costs of $23.6 million was due to increased CAISO wheeling access charges during the year.

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.

The following charts compare the components of Operating Expenses in fiscal years ended June 30, 2016, 2015, and 2014:



FINANCING ACTIVITIES

During 2016, 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. Standard and Poor's, Moody's, and Fitch affirmed their current ratings on all projects in October 2014, December 2015, and May of 2016, respectively.

Ratings assigned to the Agency's outstanding project bonds as of June 30, 2016 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,	
	2016	2015
ASSETS	(in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	$ 49,642	$ 45,593
Investments	22,209	24,067
Accounts receivable		
Participants	690	24
Other	495	2,127
Interest receivable	120	86
Inventory and supplies	9,122	8,149
Prepaid expenses	1,088	1,455
TOTAL CURRENT ASSETS	83,366	81,501
RESTRICTED ASSETS		
Cash and cash equivalents	56,669	57,586
Investments	154,757	146,922
Interest receivable	333	261
TOTAL RESTRICTED ASSETS	211,759	204,769
ELECTRIC PLANT		
Electric plant in service	1,500,739	1,500,076
Less: accumulated depreciation	(911,976)	(881,412)
	588,763	618,664
Construction work-in-progress	107	44
TOTAL ELECTRIC PLANT	588,870	618,708
OTHER ASSETS		
Regulatory assets	249,519	249,659
Unused vendor credits	55	-
TOTAL ASSETS	1,133,569	1,154,637
DEFERRED OUTFLOWS OF RESOURCES		
Excess cost on refunding of debt	54,348	62,114
Pension deferrals	9,093	5,310
TOTAL DEFERRED OUTFLOWS OF RESOURCES	63,441	67,424
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,197,010	$ 1,222,061

See notes to combined financial statements

COMBINED STATEMENTS OF NET POSITION

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	June 30,	
	2016	2015
LIABILITIES	(in thousands)	
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 24,473	$ 23,462
Member advances	993	993
Operating reserves	17,535	21,185
Current portion of long-term debt	37,250	35,615
Accrued interest payable	11,402	11,969
TOTAL CURRENT LIABILITIES	91,653	93,224
NON-CURRENT LIABILITIES		
Net pension liability	57,774	57,260
Operating reserves and other deposits	134,577	126,185
Interest rate swap liability	22,261	16,535
Long-term debt, net	776,982	816,936
TOTAL NON-CURRENT LIABILITIES	991,594	1,016,916
TOTAL LIABILITIES	1,083,247	1,110,140
DEFERRED INFLOWS OF RESOURCES		
Regulatory credits	79,201	76,984
Pension deferrals	6,599	4,946
TOTAL DEFERRED INFLOWS OF RESOURCES	85,800	81,930
NET POSITION		
Net investment in capital assets	(62,193)	(60,971)
Restricted	66,282	64,688
Unrestricted	23,874	26,274
TOTAL NET POSITION	27,963	29,991
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,197,010	$ 1,222,061

See notes to combined financial statements

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2016	2015
	(in thousands)	
OPERATING REVENUES		
Participants	$ 328,101	$ 287,845
Other Third-Party	124,544	136,042
TOTAL OPERATING REVENUES	452,645	423,887
OPERATING EXPENSES		
Purchased power	182,563	153,033
Operations	69,075	90,617
Transmission	83,713	60,139
Depreciation	30,645	31,140
Maintenance	22,675	21,659
Administrative and general	18,380	22,084
TOTAL OPERATING EXPENSES	407,051	378,672
NET OPERATING REVENUES	45,594	45,215
OTHER (EXPENSES) REVENUES		
Interest expense	(48,454)	(44,885)
Interest income	3,538	1,429
Other	6,056	5,196
TOTAL OTHER EXPENSES	(38,860)	(38,260)
FUTURE RECOVERABLE AMOUNTS	(140)	(2,292)
REFUNDS TO PARTICIPANTS	(8,622)	(6,905)
DECREASE IN NET POSITION	(2,028)	(2,242)
NET POSITION, Beginning of year	29,991	32,233
NET POSITION, End of year	$ 27,963	$ 29,991

See notes to combined financial statements

COMBINED STATEMENTS OF CASH FLOW

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2016	2015
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from participants	$ 329,651	$ 282,699
Received from others	133,087	137,479
Payments for employee services	(33,547)	(32,118)
Payments to suppliers for goods and services	(346,293)	(326,564)
NET CASH FROM OPERATING ACTIVITIES	82,898	61,496
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and sales of investments	178,073	131,019
Interest received on cash and investments	2,119	1,027
Purchase of investments	(182,741)	(143,793)
NET CASH FROM INVESTING ACTIVITIES	(2,549)	(11,747)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of electric plant	(808)	(991)
Interest paid on long-term debt	(38,231)	(39,884)
Principal repayment on long-term debt	(35,615)	(34,000)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(74,654)	(74,875)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Other proceeds	6,059	5,059
Refunds to participants	(8,622)	(6,905)
NET CASH FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	(2,563)	(1,846)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,132	(26,972)
CASH AND CASH EQUIVALENTS		
Beginning of year	103,179	130,151
End of year	$ 106,311	$ 103,179

See notes to combined financial statements

COMBINED STATEMENTS OF CASH FLOW-Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2016	2015
	(in thousands)	
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES		
Net operating revenues	$ 45,594	$ 45,215
Adjustments to reconcile net operating revenues to net cash from operating activities:		
Depreciation	30,645	31,140
	76,239	76,355
CASH FLOWS IMPACTED BY CHANGES IN		
Accounts receivable	966	608
Inventory, prepaid expense, and unused vendor credits	(661)	(661)
Operating reserves and other deposits	4,742	(3,314)
Regulatory credits	2,217	(4,776)
Accounts payable	1,011	(6,352)
Net pension liability and related amounts	(1,616)	(364)
NET CASH FROM OPERATING ACTIVITIES	$ 82,898	$ 61,496
CASH AND CASH EQUIVALENTS AS STATED IN THE COMBINED STATEMENT OF NET POSITION		
Cash and cash equivalents - current assets	$ 49,642	$ 45,593
Cash and cash equivalents - restricted assets	56,669	57,586
End of year	$ 106,311	$ 103,179

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 E – 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.

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 2.0% of the average electric plant in service for the Agency during both 2016 and 2015. 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, 2016 is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
		(in thousands)		
Structures and Leasehold Improvements	$ 319,069	$ 58	$ -	$ 319,127
Reservoirs, Dams and Waterways	249,339	-	-	249,339
Equipment	757,310	898	(481)	757,727
Furniture and Fixtures	2,413	188	-	2,601
	1,328,131	1,144	(481)	1,328,794
Accumulated Depreciation	(881,412)	(30,645)	81	(911,976)
	446,719	(29,501)	(400)	416,818
Construction Work-In-Progress	44	63	-	107
Land and Land Rights	171,945	-	-	171,945
Electric Plant, Net	$ 618,708	$ (29,438)	$ (400)	$ 588,870

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

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.

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. For items related to Net Pension Liability, the Agency expects to recover these items through participant collections as determined by CalPERS actuarial calculation. For other regulatory items, 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 net pension liability and 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, 2016 and 2015, the Agency had accumulated regulatory assets, net of regulatory credits, of approximately $170,318,000 and $172,675,000, 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 accounts payable and accrued expenses.

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.

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 E - 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 2016 and 2015, 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, 2016 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 H - 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.

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, 2016 and 2015 were $2,999,000 and $2,792,000, 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 E – 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 deferrals . 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, 2015 those contributions will be expensed in fiscal year 2017.

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 deferrals projected in the CalPERS actuarial report.

Recent Accounting Pronouncements In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application, effective for financial statements for years beginning after June 15, 2015. This statement clarifies the definition of fair value, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. This statement establishes a three-level hierarchy to the valuation techniques used to measure fair value. Disclosure is required to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

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.

Reclassifications Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications had no effect on previous change in net position or net position.

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, 2016 Description	Carrying Value	Fair Value	Wtd. Avg Maturity (In years)
	(in thousands)		
U.S. Agencies	$ 169,717	$ 176,966	2.75
TOTAL INVESTMENTS	$ 169,717	$ 176,966	

Investments at June 30, 2015 Description	Carrying Value	Fair Value	Wtd. Avg Maturity (In years)
	(in thousands)		
U.S. Agencies	$ 171,016	$ 170,989	2.43
TOTAL INVESTMENTS	$ 171,016	$ 170,989	

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.

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. The Agency's policy mitigates this risk by requiring transactions with approved institutions and firms that have one or more of the following attributes: recognized as a primary government dealer as designated by the Federal Reserve Bank; regional broker/dealer headquartered in the State of California; national or state chartered bank that must be a member of the FDIC; direct issuer of securities eligible for purchase by the Agency; brokers and dealers qualify under SEC Rule 15C3-1 (Uniform Net Capital Rule), must be registered with the Financial Industry Regulatory Authority (FINRA) and must be licensed to do business in the State of California. Capitalization, credit worthiness, experience, reference checks and services offered criteria are evaluated when selecting a custodian.

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 -- FAIR VALUE MEASUREMENT

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application, effective for financial statements for years beginning after June 15, 2015. This statement clarifies the definition of fair value, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements.

In accordance with GASB 72, Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability.

Valuation inputs are assumptions that market participants use in pricing an asset or liability. The hierarchy of inputs used to generate the valuation is classified into three different Levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs include quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for an asset, either directly or indirectly.
- Level 3 inputs are unobservable inputs from the asset or liability where there is very little market activity and they should be used only when relevant Level 1 and Level 2 inputs are unavailable.

The Agency's fair value measurements are performed on a recurring basis. Because investing is not a core part of the Agency's mission, the Agency determines that the disclosures related to these investments only need to be disaggregated by major type. The fair value of swaps reflect the nonperformance risk of their client counterparty relating to that liability, and the nonperformance risk of the bank counterparty relating to that asset.

Fair Value of Investments under GASB 72 – Debt and other securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Level 2 Securities are valued using a multi-dimensional relationship model or matrix pricing model utilizing market data including, but not limited to, benchmark yields, reported trades, and broker/dealer quotes.

Fair Value of Swaps under GASB 72 – Fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of a given transaction. The valuations of derivatives transactions provided are indicative values based on mid-market levels as of June 30, 2016. These valuations do not represent the actual terms at which new transactions could be entered into or the actual terms at which existing transactions could be liquidated. The valuations provided are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions for interest rate swaps. The observability of inputs used to perform the measurement results in the swap fair values being categorized as Level 2.

The Agency has the following fair value measurements as of June 30, 2016:

		Fair Value Using (thousands)		
	June 30, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level				
Debt Securities				
U.S governmental securities	$ -	$ -	$ -	$ -
U.S agencies	176,966	176,966	-	-
Total debt securities	176,966	176,966	-	-
Total investments by fair value level	$ 176,966	$ 176,966	$ -	$ -
Derivative Instruments by fair value level				
Swap liability instruments	$ (22,261)	$ -	$ (22,261)	$ -
Total Derivative Instruments by fair value level	$ (22,261)	$ -	$ (22,261)	$ -

The Agency had the following fair value measurements as of June 30, 2015:

		Fair Value Using (thousands)		
	June 30, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level				
Debt Securities				
U.S governmental securities	$ -	$ -	$ -	$ -
U.S agencies	170,989	170,989	-	-
Total debt securities	170,989	170,989	-	-
Total investments by fair value level	$ 170,989	$ 170,989	$ -	$ -
Derivative Instruments by fair value level				
Swap liability instruments	$ (16,535)	$ -	$ (16,535)	$ -
Total Derivative Instruments by fair value level	$ (16,535)	$ -	$ (16,535)	$ -

NOTE E -- 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.

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
			(in thousands)		
Geothermal Project					
2009 Series A - Original Issue Amount $35,610					
Serial, 4.00-5.50% through 2025	$ 27,835	$ -	$ 2,190	$ 25,645	$2,300
2012 Series A - Original Issue Amount $12,910					
Term, 2.289% due 2023	10,130	-	1,255	8,875	1,280
Add: Unamortized Premium	133	-	59	74	-
Total Geothermal Project	38,098	-	3,504	34,594	3,580
Hydroelectric Project - Original Issue Amount $195,610					
1992 Refunding Series A					
Term, 6.30% due 2019	25,565	-	955	24,610	1,015
2008 Refunding Series A - Original Issue Amount $85,160					
Term, adjustable rate-weekly reset, due 2033	85,160	-	-	85,160	-
2008 Refunding Series B (Taxable) - Original Issue Amount $3,165					
Term, adjustable rate-weekly reset, due 2021	2,105	-	275	1,830	290
2008 Refunding Series C - Original Issue Amount $128,005					
Serial, 4.00-5.00% through 2025	98,600	-	10,470	88,130	11,000
2010 Refunding Series A - Original Issue Amount $101,260					
Serial, 4.00-5.00% through 2024	87,765	-	7,405	80,360	7,745
2012 Refunding Series A - Original Issue Amount $76,665					
Serial, 5.00% through 2033	76,665	-	-	76,665	-
2012 Refunding Series B - Original Issue Amount $7,120					
Serial, 4.32% through 2025	7,120	-	-	7,120	-
Add: Unamortized Premium, net	13,739	-	1,744	11,995	-
Total Hydroelectric Project	396,719	-	20,849	375,870	20,050
Capital Facilities Project - Original Issue Amount $55,120					
2010 Refunding Series A					
Serial, 2.00-5.25% through 2026	44,655	-	3,585	41,070	3,670
Add: Unamortized Premium	1,167	-	210	957	-
Total Capital Facilities Project	45,822	-	3,795	42,027	3,670

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
			(in thousands)		
Lodi Energy Center, Issue One					
2010 Series A - Original Issue Amount $78,330					
Serial, 3.00-5.00% through 2020	28,230	-	5,110	23,120	5,365
Term, 5.00% due 2025	36,020	-	-	36,020	-
2010 Series B (Federally Taxable - Direct Payment Build America Bonds) - Original Issue Amount $176,625					
Term, 7.311% due 2040	176,625	-	-	176,625	-
Lodi Energy Center, Issue Two					
2010 Series A - Original Issue Amount $30,540					
Serial, 3.00-5.00% through 2019	18,640	-	4,370	14,270	4,585
2010 Series B (Federally Taxable - Direct Payment Build America Bonds) - Original Issue Amount $110,225					
Term, 4.63% due 2020	5,210	-	-	5,210	-
Term, 5.679% due 2035	105,015	-	-	105,015	-
Add: Unamortized Premium	2,172	-	691	1,481	-
Total Lodi Energy Center Project	371,912	-	10,171	361,741	9,950
Total Long-Term Debt, Net	$ 852,551	$ -	$ 38,319	$ 814,232	$37,250

Debt service requirements for each of the next five years and in five-year cumulative increments thereafter as of June 30, 2016:

	Principal	Interest	Total
		(in thousands)	
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	43,900	36,154	80,054
2022-2026	229,970	145,526	375,496
2027-2031	168,700	92,655	261,355
2032-2036	137,805	43,485	181,290
2037-2040	59,675	11,161	70,836
	$ 799,725	$ 494,031	$ 1,293,756

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:

		2016	2015
		(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.

	2008 Hydroelectric Refunding Revenue Bonds Forward Starting Swaps			
Associated Interest Rate Swaps starting April 2, 2008	Series A		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		$1,205,627	
Fair Value--Due from (to) Counterparty	$(22,600,074)		$ 338,680	
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	(5.357) %
Variable Payments (from) to Counterparty	54% LIBOR+.54%*	(0.724) %	100% of LIBOR*	0.326 %
Net Interest Rate Swap Payments		3.095 %		(5.031) %
Variable-Rate Bond Payments	SIFMA**	0.114 %	SIFMA**	0.454 %
Effective Interest Rate on Bonds		3.209 %		(4.577) %

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 $22,261,000 and $16,535,000 at June 30, 2016 and June 30, 2015, 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 ($5.8) 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 2016 and FY 2015. The value of the swaps noted above reflects the estimated fair value of the swaps at June 30, 2016 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, 2016, 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 6.8% and 7.3% in 2016 and 2015, respectively, due to federal government budget sequestration. Such payments may continue to be affected by sequestrations.

NOTE F -- RETIREMENT PLAN

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, 2016, 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	29.474%	29.474%

Employees Covered – At June 30, 2016 and 2015, the following employees were covered by the benefit terms for each Plan:

	2016	2015
Inactive employees or beneficiaries currently receiving benefits	118	115
Inactive employees entitled to but not yet receiving benefits	2	2
Active employees	152	149
Total	272	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, 2015 and 2014 (the measurement dates), the average active employee contribution rates were 7.881% and 7.866%, respectively, of annual pay and the Agency's contribution rates are 28.234% and 27.605%, respectively, of annual payroll. Employer contribution rates may change if plan contracts are amended.

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 at year end, using annual actuarial valuations as of the previous year end and rolled forward to current year end, 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 as of June 30, 2016 and 2015 were determined using the following actuarial assumptions:

	2016	2015
Valuation Date	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2015	June 30, 2014
Actuarial Cost Method	Entry-Age Normal	Entry-Age Normal
Actuarial Assumptions:		
Discount Rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.2%-12.2% (1)	3.3%-14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	(3)	(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 7.65% 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 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% 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%. For the year ended June 30, 2015, using this lower discount rate 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 expected rate of return on pension plan investments 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.

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	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	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

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, 2015	$ 132,170,818	$ 74,910,678	$ 57,260,140
Service cost incurred	3,256,167	-	3,256,167
Interest on total pension liability	9,734,270	-	9,734,270
Differences between actual and expected experience	-	-	-
Change in assumption	(2,354,661)	-	(2,354,661)
Change in benefits	-	-	-
Contributions - employer	-	5,584,985	(5,584,985)
Contributions - employee	-	1,433,343	(1,433,343)
Projected earnings on investments	-	1,754,108	(1,754,108)
Differences between projected and actual earnings on plan investments	(1,437,389)	-	(1,437,389)
Benefit payments	(5,522,982)	(5,522,982)	-
Administrative expense		(87,934)	87,934
Net changes	3,675,405	3,161,520	513,885
Balance at June 30, 2016	$ 135,846,223	$ 78,072,198	$ 57,774,025

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 (6.65%) or 1-percentage point higher (8.65%) than the current rate, rates for 2014 are net of administrative expenses:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability	$ 75,790,453	$ 57,774,025	$ 42,788,940

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

For the years ending June 30, 2016 and 2015, the Agency incurred pension expense of $4,565,372 and $5,173,811, respectively. At June 30, 2016 and 2015, the Agency has deferred outflows of resources and deferred inflows of resources related to pensions as follows:

2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 5,906,603	$ -
Changes in assumptions	-	(1,794,027)
Differences between actual and expected experience	-	(1,095,154)
Net differences between projected and actual earnings on plan investments	3,185,968	(3,710,132)
Total	$ 9,092,571	$ (6,599,313)

2015	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)

$5,906,603 and $5,309,739 reported as deferred outflows of resources related to contributions subsequent to the years ending June 30, 2016 and 2015, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017 and 2016, respectively. Amounts reported as deferred outflows/(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	
2017	$	(1,343,088)
2018		(1,343,088)
2019		(1,343,087)
2020		615,918
2021		-
Thereafter		-
Total	$	(3,413,345)

Payable to the Pension Plan

At June 30, 2016 and 2015, the Agency did not have an outstanding amount of contributions payable to the pension plan required for the years ended.

NOTE G -- 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 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 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, 2016, the Agency had 142 active eligible employees and 115 retirees drawing benefits under this program.

Trend Information for the OPEB Plan

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
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%	-
June 30, 2016	$ 1,255,010	100.0%	-

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 H -- 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 $19.0 million in connection with various power purchase contracts as of June 30, 2016. 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 Mercuria Energy Gas Trading, LLC (Mercuria) 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.
- The Agency had approximately $15.3 million of gas purchase commitments at June 30, 2016. The commitments, extending through December 2020, 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 an 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 $14.2 million in a reserve for such purpose as of June 30, 2016.

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.

Claims

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 were $1.74 million in 2016. A Presidential Disaster Declaration was issued on September 22, 2015. Public Assistance was added to the Disaster Declaration on October 9, 2015. The Agency is seeking cost recovery from its insurance policy and public assistance grants and will record those proceeds in other non-operating revenue in the fiscal year in which they are received.

In December, 2015, the Hydroelectric Project Adit 4 Tunnel Spoils incurred water related damage that required remediation to stabilize the site and prevent further erosion to Clark Creek. The Adit 4 Tunnel Spoils (Spoils) are located approximately 1.5 miles up canyon from the Collierville Powerhouse in Calaveras County and are part of the water conveyance tunnel between McKays Point Diversion Dam and the Collerville Power House. Damage and reparation costs are estimated to be $4.5 million, and construction is projected to occur in 2017. Insurance recovery is inestimable at this time.

NOTE I – SUBSEQUENT EVENTS

In October 2016, the Agency refunded $15,705,000 principal amount of Geothermal Project No. 3 Revenue Refunding Bonds, Series A maturing on July 1 in each of the years 2017 through 2024. The refunding was completed through the issuance of $17,530,000 fixed rate tax exempt debt (2016 Series A) with a yield of 1.67% with varying principal maturities ranging from $265,000 to $3,425,000 through July 1, 2024. The refunding is estimated to have decreased project debt service by an estimated $1.69 million over the next 8 years, which results in an estimated economic gain to the Agency of approximately $1.03 million.

Effective September 1, 2016, Mercuria assigned all rights to provide the gas supply and nomination, imbalance, and settlement services for the Agency's Lodi Energy Center Project to EDF Trading North America, LLC.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

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

	FY 2016	FY 2015
Total Pension Liability		
Service cost	$ 3,256,167	$ 3,220,329
Interest on total pension liability	9,734,270	9,285,364
Differences between expected and actual experience	(1,437,389)	-
Changes in assumptions	(2,354,661)	-
Changes in benefits	-	-
Benefit payments, including refunds of employee contributions	(5,522,982)	(5,059,144)
Net change in total pension liability	3,675,405	7,446,549
Total pension liability - beginning	132,170,818	124,724,269
Total pension liability - ending (a)	$ 135,846,223	$ 132,170,818
Plan fiduciary net position		
Contributions - employer	$ 5,584,985	$ 5,507,642
Contributions - employee	1,433,343	1,410,488
Net investment income	1,754,108	10,868,237
Benefit payments	(5,522,982)	(5,059,144)
Administrative expense	(87,934)	-
Net change in plan fiduciary net position	3,161,520	12,727,223
Plan fiduciary net position - beginning	74,910,678	62,183,455
Plan fiduciary net position - ending (b)	$ 78,072,198	$ 74,910,678
Net pension liability - ending (a)-(b)	$ 57,774,025	$ 57,260,140
Plan fiduciary net position as a percentage of the total pension liability	57.47%	56.68%
Covered - employee payroll	$ 18,365,293	$ 17,596,462
Net pension liability as percentage of covered-employee payroll	314.58%	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, 2015. This applies for voluntary benefit changes as well as any offers to Two Years Additional Service Credit (aka Golden Handshakes).

Changes in assumptions In 2016, GASB 68 was modified to state that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

* Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

Schedule of Plan Contributions
Last 10 Years *

	FY 2016	FY 2015
Actuarially Determined Contribution	$ 5,065861	$ 5,029,697
Contributions in Relation to the Actuarially Determined Contribution	(5,584,985)	(5,507,642)
Contribution Deficiency (Excess)	$ (519,124)	$ (477,945)
Covered-Employee Payroll[1]	$ 18,365,293	$ 17,596,462
Contributions as a Percentage of Covered-Employee Payroll[1]	30.41%	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 two years are shown.