

**TRUCKEE DONNER
PUBLIC UTILITY DISTRICT**

PRIMARY GOVERNMENT ONLY

Including Report of Independent Auditors

December 31, 2016 and 2015

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Truckee Donner Public Utility District

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Truckee Donner Public Utility District (the "District"), which comprise the consolidated statements of net position as of December 31, 2016 and 2015, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Truckee Donner Public Utility District as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The consolidated financial statements referred to above include only the primary government of the District which consists of all departments that comprise the District's legal entity. The consolidated financial statements do not include financial data for the District's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the District's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the financial position of the reporting entity of the District as of December 31, 2016 and 2015, the results of operations, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, the District has issued separate reporting entity financial statements, for which we have issued our report for the 2016 and 2015 statements dated June 7, 2017.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of the District's proportionate share of the net pension liability, the schedule of contributions, and retiree health plan funding history, be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures in 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 consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

REPORT OF INDEPENDENT AUDITORS (continued)

Other Supplementary Information

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the District's consolidated financial statements. The consolidating statements of net position, statements of revenues, expenses and changes in net position and cash flows as of and for the year ended December 31, 2016 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating statements of net position, statements of revenues, expenses and changes in net position and cash flows have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statements of net position, statements of revenues, expenses and changes in net position and cash flows are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mass Adams LLP

Portland, Oregon

June 7, 2017

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016 and 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Truckee Donner Public Utility District (the District), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District for the years ended December 31, 2016 and 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial topics, provide an overview of the District's financial activity and identify changes in the District's financial position.

We encourage readers to consider the information presented here in conjunction with that presented within the basic financial statements. The reader should take time to read and evaluate all sections of this report, including the footnotes and other supplementary information that is provided, in addition to this management discussion and analysis.

FINANCIAL HIGHLIGHTS

The District's current assets increased \$0.7 million (2.4%) from \$28.2 million at December 31, 2015 to \$28.9 million at December 31, 2016, predominantly due to higher than anticipated revenues for the Electric Utility.

The District's total net position increased \$3.5 million (3.1%) from \$109.7 million at December 31, 2015, to \$113.2 million at December 31, 2016. The increase was primarily due to a \$3.4 million increase for the Electric Utility.

Operating revenues increased \$2.6 million (8.0%) from \$33.0 million in 2015 to \$35.6 million in 2016. Electric revenues increased only 6.0% in 2015 as the District experienced higher energy consumption related to an extreme winter resulting in high tourist visitation. Water revenues increased 11.8%; there was a 6% rate increase in 2016 in addition to changes in the state mandated drought regulations.

Operating expenses of the District increased \$2.2 million (6.6%) from \$30.9 million in 2015 to \$33.1 million in 2016. Electric expense increased 6.9% and Water expense increased 7.1% primarily attributed to \$1.4 million in additional expense for Pension and Other Post –Employee Benefits required to comply with GASB 68 and updated requirements for GASB 45.

Compared to 2015, the overall non-operating revenues remained nearly flat at \$0.4 million in 2016 and 2015 respectively. Non-operating expenses decreased \$0.1 million from \$1.1 million in 2015 to \$1.0 million in 2016.

In October 2016, the District had two bond refundings (refinance). For the Water Utility the remaining portion of the 2006 COP was refunded providing the District with a net present value savings of just under \$222,000 over the term of the bond. For the Electric Utility the Pension Sidefund Obligation Bond was refunded, providing the District with a net present value savings of \$164,000 over the term of the bond (See Note 5). No other new debt was issued in 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes Management's Discussion and Analysis, the Independent Auditors' Report, the Basic Financial Statements, (which includes the notes to the financial statements), Required Supplementary Information and additional Supplementary Information.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016 and 2015

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to a private-sector business. They have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short-term and long-term financial information about the District's activities.

The reporting entity consists of the primary government, which provides two utilities (electric utility and water utility), and the blended component units. Further details about the component units are provided in note 1(A).

The **Consolidated Statements of Net Position** presents information on all of the District's assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are reported in the **Consolidated Statements of Revenues, Expenses, and Changes in Net Position**. This statement provides a measurement of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its rates and other charges.

The **Consolidated Statements of Cash Flows** provides relevant information about the District's cash receipts and cash payments during the reporting period. This statement reports cash receipts and cash payments resulting from operating, non-capital financing, capital and related financing, and investing activities. When used with related disclosures and information in the other financial statements, the statement of cash flows should provide insight into (a) the District's ability to generate future net cash flows, (b) the District's ability to meet its obligations as they come due, (c) the District's needs for external financing, (d) the reasons for differences between operating income and associated cash receipts and payments, and (e) the effects on the District's financial position of both its cash and its non-cash investing, capital, and financing transactions during the period. The changes in cash balances are an important indicator of the District's liquidity and financial condition.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the basic financial statements. This includes but is not limited to, significant accounting policies, significant financial statement balances and activities, material risks, commitments and obligations, and subsequent events, as applicable.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016 and 2015

DISTRICT HIGHLIGHTS

The condensed financial statements at December 31, 2016, 2015, and 2014 are presented below.

CONSOLIDATED STATEMENT OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015	2014	Increase (Decrease) 2016 - 2015
Current assets	\$ 28,913,981	\$ 28,230,800	\$ 31,598,559	\$ 683,181
Non-current assets:				
Capital assets, net	123,602,331	122,416,668	119,322,462	1,185,663
Restricted assets	1,876,032	1,900,036	1,937,917	(24,004)
Other long-term assets	4,618,396	5,361,643	6,072,406	(743,247)
Total Assets	<u>159,010,740</u>	<u>157,909,147</u>	<u>158,931,344</u>	<u>1,101,593</u>
Deferred outflows of resources	<u>4,764,564</u>	<u>3,274,459</u>	<u>500,632</u>	<u>1,490,105</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 163,775,304</u>	<u>\$ 161,183,606</u>	<u>\$ 159,431,976</u>	<u>\$ 2,591,698</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities	\$ 7,262,461	\$ 7,300,776	\$ 6,648,077	\$ (38,315)
Non-current Liabilities				
Long-term debt, net of current portion	27,642,726	30,583,770	34,652,693	(2,941,044)
Net pension liability	10,250,329	8,013,400	6,210,985	2,236,929
OPEB liability	719,217	-	-	719,217
Unearned revenues	3,073,507	3,226,709	2,786,763	(153,202)
Total Liabilities	<u>48,948,240</u>	<u>49,124,655</u>	<u>50,298,518</u>	<u>(176,415)</u>
Deferred inflows of resources	<u>1,597,126</u>	<u>2,341,737</u>	<u>2,168,674</u>	<u>(744,611)</u>
NET POSITION				
Net investment in capital assets	93,421,545	89,271,509	82,613,625	4,150,036
Restricted for debt service	6,011,469	5,762,124	7,768,818	249,345
Unrestricted	13,796,924	14,683,581	16,582,341	(886,657)
Total Net Position	<u>113,229,938</u>	<u>109,717,214</u>	<u>106,964,784</u>	<u>3,512,724</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 163,775,304</u>	<u>\$ 161,183,606</u>	<u>\$ 159,431,976</u>	<u>\$ 2,591,698</u>

The District implemented Governmental Accounting Standards Board (GASB) Statement of Governmental Accounting Standards (SGAS) No. 68 "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27" (GASB No. 68) in 2015. Under GASB no. 68, the District is required to report the net pension liability and deferred inflows and outflows in the Statement of Net Position. Net Pension Liability was \$10.3 million, \$8.0 million and \$6.2 million at December 31, 2016, 2015 and 2014 respectfully. Net long-term debt decreased \$2.9 million, due to the annual reduction of existing debt. See note 5 for details on remaining debt. The District had two refundings in 2016, the previously unrefunded portion of the 2006 COP and the Pension Sidefund Obligation Bond which provide the District with net present value savings of just under \$386,000 over the remaining life of the bonds. No additional debt was issued in 2016 or 2015 respectfully. The District's total net position increased \$3.5 million, substantially due to increased investment in capital assets for substations, pipeline replacement projects, pump stations, and the reliability

See accompanying auditors' report.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016 and 2015

enhancement of the District's computer servers. "Net investment in capital assets," consist of capital assets, net of accumulated depreciation, reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. When there are significant unspent bond proceeds, the portion of related debt is not included in the calculation of this item. Instead, that portion of the debt is included in the net position restricted for capital projects component as an offset to the related unspent bond proceeds.

"Restricted for debt service" represents amounts restricted for payments related to outstanding revenue bonds.

The District had income before capital contributions of \$1.8 million, \$1.3 million, and \$0.9 million for the years ended December 31, 2015, 2014, and 2013, respectively. The District's December 31, 2014 income before capital contributions increased \$0.2 million due to the required restatement for compliance with GASB No. 68 first year implementation for pension accounting. Changes in the District's net position can be determined by reviewing the following Condensed Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2015, 2014, and 2013.

CONDENSED REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>2016</u>	<u>2015</u>	<u>2014</u>	Increase (Decrease) 2016 - 2015
Sales to consumers	\$ 33,026,587	\$ 30,818,856	\$ 30,331,953	\$ 2,207,731
Other operating revenues	2,577,122	2,158,141	2,296,643	418,981
Total Operating Revenues	35,603,709	32,976,997	32,628,596	2,626,712
Operating expenses	33,101,672	30,892,366	30,879,299	2,209,306
Operating Income (Loss)	2,502,037	2,084,631	1,749,297	417,406
Non-operating revenues (expenses)	(688,423)	(762,711)	(826,268)	74,288
Income (loss) before capital contributions	1,813,614	1,321,920	923,029	491,694
Capital contributions, net	1,699,110	1,430,510	994,056	268,600
Change in net position	3,512,724	2,752,430	1,917,085	760,294
Net Position, Beginning of Year	109,717,214	106,964,784	119,336,452	2,752,430
Less: Restatement for change in accounting principal	-	-	(14,288,753)	-
Net Position, Beginning of Year, as adjusted	109,717,214	106,964,784	105,047,699	2,752,430
NET POSITION, END OF YEAR	<u>\$ 113,229,938</u>	<u>\$ 109,717,214</u>	<u>\$ 106,964,784</u>	<u>\$ 3,512,724</u>

Total operating revenues were \$35.6 million in 2016, \$33.0 million in 2015, and \$32.6 million in 2014. In 2016, electric revenues increased 6.0% as the District experienced an active winter season compared to prior years. Water revenues increased 11.8%; there was a 6% rate increase in 2016 in addition to changes to the state mandated drought regulations.

Total operating expenses were \$33.1 million in 2016, \$30.9 million in 2015, and \$30.9 million in 2014. Electric expenses increased 6.9% and water expenses increased 7.1% primarily attributed to \$1.4 million in additional expense compared to 2015 for pension expense and other post-employment benefits in compliance with GASB 68 and GASB 45 (see note 9).

See accompanying auditors' report.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016 and 2015

Non-operating revenues remained nearly flat in 2016 from 2015. Non-operating expenses decreased \$0.1 million due to decreased interest expense from 2015 and savings acquired from the 2016 refundings of existing debt (see note 5).

CAPITAL ASSETS

As of December 31, 2016, 2015, and 2014, the District had \$123.6 million, \$122.4 million, and \$119.3 million, respectively, invested in a variety of capital assets, net of accumulated depreciation. A summary of capital assets is reflected in the following schedule.

	2016	2015	2014
Electric distribution facilities	\$ 58,345,690	\$ 54,721,615	\$ 51,524,863
Water distribution facilities	108,860,825	107,005,578	103,049,122
General plant	15,062,278	13,887,881	12,816,635
Sub-totals	182,268,793	175,615,074	167,390,620
Less: Accumulated depreciation	<u>(63,372,738)</u>	<u>(58,042,448)</u>	<u>(54,475,747)</u>
Net of accumulated depreciation	118,896,055	117,572,626	112,914,873
Construction work in progress	4,663,696	4,844,042	6,407,589
Net capital assets	<u>\$ 123,559,751</u>	<u>\$ 122,416,668</u>	<u>\$ 119,322,462</u>

Net capital assets (additions, less retirements and depreciation) increased in 2016 \$1.2 million. This increase is primarily attributed to the Electric Utility's replacement of sub-station equipment in addition to the Water Utility's ongoing replacement of the antiquated SCADA communication system in addition to pump station maintenance and repairs and main water line replacements across the District.

LONG-TERM DEBT

Long-term debt includes revenue bonds and notes payable. At December 31, 2016, 2015, and 2014, the District had \$27.6 million, \$30.6 million, and \$34.7 million, respectively, in long-term debt outstanding, net current maturities.

In October 2016, the remaining portion of the 2006 COP was refunded and the Pension Sidefund Obligation Bond, was refunded saving the District \$0.4 million over the remaining term of the bonds. No other new debt was issued in 2016.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Truckee Donner Public Utility District
Attn: Treasurer
11570 Donner Pass Road
Truckee, CA 9616

See accompanying auditors' report.

FINANCIAL STATEMENTS

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

CONSOLIDATED STATEMENTS OF NET POSITION

December 31, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
CURRENT ASSETS		
Funds		
Operating	\$ 7,852,130	\$ 6,616,354
Designated	10,759,538	11,914,287
Restricted	4,293,285	4,061,391
Total Funds	22,904,953	22,592,032
Accounts receivable, net	1,820,173	1,639,096
Unbilled revenues	2,911,201	2,766,757
Accrued interest receivable	65,044	70,856
Materials and supplies	656,981	639,442
Prepaid expenses	459,264	436,902
Other	96,365	85,715
Total Current Assets	28,913,981	28,230,800
NON-CURRENT ASSETS		
Other Non-Current Assets		
Restricted funds	1,876,032	1,900,036
Special assessments receivable	3,692,876	4,363,790
Other	925,520	997,853
Total Other Non-Current Assets	6,494,428	7,261,679
DEFERRED OUTFLOWS OF RESOURCES		
Pension	4,005,050	2,632,077
Unamortized loss on refunding	609,580	642,382
Unamortized redemption premium	149,934	-
Total Deferred Outflows of Resources	4,764,564	3,274,459
CAPITAL ASSETS		
Utility plant	182,268,793	175,615,074
Accumulated depreciation	(63,372,738)	(58,042,448)
Construction work in progress	4,706,276	4,844,042
Total Capital Assets	123,602,331	122,416,668
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 163,775,304	\$ 161,183,606

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

CONSOLIDATED STATEMENTS OF NET POSITION

December 31, 2016 and 2015

NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	2016	2015
CURRENT LIABILITIES		
Other Liabilities		
Accounts payable	\$ 2,506,514	\$ 2,983,101
Customer deposits	468,168	423,502
Other	918,577	766,699
Total Other Liabilities	3,893,259	4,173,302
Current Liabilities Payable From Restricted Assets		
Current portion of long-term debt	3,206,043	2,935,919
Accrued interest payable	163,159	191,555
Total Current Liabilities Payable from Restricted Assets	3,369,202	3,127,474
Total Current Liabilities	7,262,461	7,300,776
NON-CURRENT LIABILITIES		
Long-term debt, net of discounts and premiums	27,584,323	30,209,240
Net pension liability	10,250,329	8,013,400
OPEB liability	719,217	-
Installment loans	58,403	374,530
Unearned revenues	3,073,507	3,226,709
Total Non-Current Liabilities	41,685,779	41,823,879
 Total Liabilities	 48,948,240	 49,124,655
DEFERRED INFLOWS OF RESOURCES		
Pension	1,597,126	2,341,737
Total Deferred Inflows of Resources	1,597,126	2,341,737
NET POSITION		
Net investment in capital assets	93,421,545	89,271,509
Restricted for debt service	6,011,469	5,762,124
Unrestricted	13,796,924	14,683,581
Total Net Position	113,229,938	109,717,214
 TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	 \$ 163,775,304	 \$ 161,183,606

The accompanying notes are an integral part of these consolidated financial statements.

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TRUCKEE DONNER PUBLIC UTILITY DISTRICT

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Sales to customers	\$ 33,026,587	\$ 30,818,856
Standby fees	160,670	169,010
Cap and trade proceeds	1,172,306	965,402
Other	1,244,146	1,023,729
Total Operating Revenues	35,603,709	32,976,997
 OPERATING EXPENSES		
Purchased power	11,511,308	11,348,241
Operations and maintenance	6,951,273	6,804,271
Consumer services	2,130,422	2,159,522
Administration and general	4,331,827	4,054,439
Pension expense	1,220,591	565,373
OPEB expense	719,218	-
Depreciation	6,237,033	5,960,520
Total Operating Expenses	33,101,672	30,892,366
 Operating Income	2,502,037	2,084,631
 NON-OPERATING REVENUE (EXPENSES)		
Investment income	368,761	385,731
Interest expense	(897,993)	(943,034)
Amortization	(12,599)	15,355
Other non-operating expenses	(145,078)	(251,753)
Gain (loss) on disposition of assets	(1,514)	30,990
Total Non-Operating Revenue (Expenses)	(688,423)	(762,711)
 Income Before Contributions	1,813,614	1,321,920
 CAPITAL & OTHER CONTRIBUTIONS	1,699,110	1,430,510
 CHANGE IN NET POSITION	3,512,724	2,752,430
 Net Position - Beginning of Year	109,717,214	106,964,784
 NET POSITION - END OF YEAR	\$ 113,229,938	\$ 109,717,214

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT
CONSOLIDATED STATEMENT OF CASH FLOWS
December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 35,177,778	\$ 32,950,562
Paid to suppliers for goods and services	(19,476,138)	(18,507,965)
Paid to employees for services	(6,432,772)	(6,159,526)
Net Cash Flows from Operating Activities	9,268,868	8,283,071
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Debt issuance costs	78,838	-
Proceeds from refunding	5,353,413	-
Principal payments on long-term debt	(6,102,838)	(593,000)
Interest payments on long-term debt	(250,584)	(301,725)
Net Cash Flows from Noncapital Financing Activities	(921,171)	(894,725)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures for utility plant	(7,421,152)	(9,014,992)
Cost of disposal of property net of salvage	(78,431)	(109,189)
Capital contributions, connection and facility fees	1,356,731	1,703,180
Special assessments receipts	670,914	648,531
Debt issuance costs	66,240	251,754
Proceeds from refunding	3,128,760	14,781,118
Principal payments on long-term debt	(5,497,159)	(18,553,445)
Interest payments on long-term debt	(648,788)	(1,309,070)
Cash Flows From Capital and Related Financing Activities	(8,422,885)	(11,602,113)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	406,993	413,723
Cash Flows from Investing Activities	406,993	413,723
Net Change in Cash and Cash Equivalents	331,805	(3,800,044)
CASH AND CASH EQUIVALENTS – Beginning of Year	22,593,595	26,393,639
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 22,925,400	\$ 22,593,595
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer and customer added capital assets	\$ 189,176	\$ 167,277
Recognition of prior period unearned revenues	\$ 3,309,061	\$ 3,014,152

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

CONSOLIDATED STATEMENT OF CASH FLOWS

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH		
FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 2,502,037	\$ 2,084,631
Noncash items included in operating income		
Depreciation and amortization	6,237,033	5,960,520
Depreciation charged to other accounts	264,368	267,722
Pension expense - GASB 68	1,180,590	565,373
Deferred Pension Contributions - GASB 68	(1,061,245)	(721,340)
OPEB	719,218	-
Changes in assets and liabilities		
Accounts receivable and unbilled revenues	(325,520)	(236,166)
Materials and supplies	(17,539)	(4,625)
Prepaid expenses and other current assets	(22,362)	(182,620)
Accounts payable	(476,588)	397,822
Customer deposits	44,668	2,152
Other current liabilities	<u>224,208</u>	<u>149,602</u>
 NET CASH FLOWS FROM OPERATING ACTIVITIES	 <u>\$ 9,268,868</u>	 <u>\$ 8,283,071</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO THE BALANCE SHEET		
Operating	\$ 7,852,130	\$ 6,616,354
Designated	10,759,538	11,914,287
Restricted funds - current	4,293,285	4,061,391
Restricted funds - non-current	<u>1,876,032</u>	<u>1,900,036</u>
Total Cash and Investments	24,780,985	24,492,068
Less: Long-term investments	(1,698,880)	(1,698,880)
Mark to market adjustments	<u>(156,705)</u>	<u>(199,593)</u>
 TOTAL CASH AND CASH EQUIVALENTS	 <u>\$ 22,925,400</u>	 <u>\$ 22,593,595</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Truckee Donner Public Utility District (the District) was formed and operates under the State of California Public Utility District Act. The District is governed by a board of directors which consists of five elected members. The District provides electric and water service to portions of Nevada and Placer Counties described as Truckee. The electric and water service operations are separately maintained and operated. These financial statements reflect the combined electric and water operations of the District. All significant transactions between electric and water operations have been eliminated. These eliminations include power purchases and rent for shared facilities.

The District's blended component units consist of organizations whose respective governing boards are comprised entirely of the members of the District's Board of Directors. These organizations are reported as if they are a part of the District's operations. The entities are legally separate; however, in the case of the Truckee Donner Public Utility District Financing Corporation, financial support has been pledged and financial and operational policies may be significantly influenced by the District.

The financial results of these blended component units are not included in this report. However, the District has issued an additional consolidated report that includes these component units. A copy of that report can be requested from the District.

The following is a description of the District's blended component units:

Truckee Donner Public Utility District Financing Corporation is a legal entity that was created to issue and administer Certificates of Participation on behalf of the District. (See note 5).

Separate standalone financial statements are not available for the blended component units described above. Unless noted, disclosures relating to the component units are the same as for the District.

B. ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities, that are a result of exchange and exchange like transactions, are recognized when the exchange takes place.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. USE OF ESTIMATES

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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. CASH AND CASH EQUIVALENTS

For the purpose of the accompanying statement of cash flows, the District considers all highly liquid instruments with original maturities of three months or less when purchased to be cash equivalents.

E. INVESTMENTS

The District pools cash and investments. The District's investment policy allows for investments in instruments permitted by the California Government Code and/or the investments permitted by the trust agreements on District financing. The District's investment policy contains provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk. Investment income from pooled investments is allocated to all funds in the pool. Interest is allocated on the basis of month end cash amounts for each fund as a percentage of the total balance.

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an assets fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 3 inputs.

F. DESIGNATED ASSETS

The board has designated certain resources for future capital projects, replacements, and operational needs.

G. RESTRICTED ASSETS

Restricted assets are assets restricted by the covenants of long-term financial arrangements or other third party legal restrictions. Restricted assets are used in accordance with their requirements and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted as they are needed.

H. ACCOUNTS RECEIVABLE AND ALLOWANCES FOR DOUBTFUL ACCOUNTS

Accounts receivable are recorded at the invoiced amount and are reported net of allowances for doubtful accounts of \$34,300 and \$51,000 for 2016 and 2015, respectively.

I. MATERIALS AND SUPPLIES

Materials and supplies are recorded at average cost.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. DEBT PREMIUM, BOND ISSUANCE COSTS, AND DISCOUNTS

Original issue and reacquired bond premiums and discounts relating to revenue bonds are amortized over the terms of the respective bond issues using the effective interest method. Bond issuance costs are expensed in the period incurred.

K. SPECIAL ASSESSMENT RECEIVABLE

Special assessment receivable represent amounts due from property owners within the Donner Lake Assessment District for improvements made by the District pursuant to an agreement with the property owners to improve their water quality as discussed in note 7.

L. AMORTIZED EXPENSES

In 2003, the District entered into a broadband dark fiber maintenance agreement with Sierra Pacific Communications (SPC) which is included in the line item "other non-current assets" in the accompanying Statement of Net Position. SPC subsequently assigned the agreement to AT&T. The agreement is expected to provide benefit to the District over the estimated 20-year life of the agreement. (See note 4).

M. CAPITAL ASSETS

Capital assets are generally defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life of at least two years.

Capital assets of the District are stated at the lower of cost or the fair market value at the time of contribution to the District. Major outlays for plant are capitalized as projects are constructed. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets, which are as follows:

Distribution Plant	
Electric	23 – 35 years
Water	15 – 40 years
Computer software and hardware	3 – 7 years
Building and improvements	20 – 33 years
Equipment and furniture	4 – 10 years

It is the District's policy to capitalize interest paid on debt incurred for significant construction projects while those projects are under construction, less any interest earned on related unspent debt proceeds. No new debt related to capital assets was issued in 2015 and 2014; no interest was capitalized in 2015 or in 2014.

N. COMPENSATED ABSENCES

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from general operating revenues of the utility.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. REVENUE RECOGNITION

The District records estimated revenues earned, but not billed to customers, as of the end of the year. Revenues are recorded as meters are read on a cycle basis throughout each month for electric and water customers. Unbilled revenues, representing estimated consumer usage for the period between the last meter reading and the end of the period, are accrued in the period of consumption. Water customers without meters are billed on a flat-rate basis, and revenues are recorded as billed. Revenues from connection fees are recognized upon completion of the connection. Income that the District has earned through investing its excess cash is reflected within income from investments when earned.

P. REVENUE AND EXPENSE CLASSIFICATION

The District distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing electric and water services in connection with the District's principal ongoing operations. The principal operating revenues are sales to customers. The District's operating expenses include power purchases, labor, materials, services, and other expenses related to the delivery of electric and water services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses, or capital contributions and other.

Q. POWER PURCHASES AND TRANSMISSION

In 1999, the District entered into an agreement with Sierra Pacific Power Company dba NV Energy (SPPC), whereby SPPC will provide transmission services to the District through December 31, 2027. In addition, the District purchases scheduling services from Utah Municipal Power Systems and the scheduling services are included in the monthly power billings from UAMPS. The purchase of transmission services from NV Energy represented 5.1% and 4.1% of total purchased power costs in 2015 and 2016, respectively.

In December of 2005, the District entered into an agreement with UAMPS. Subsequently, the District entered into many pooling appendices for power capacity and energy that relate to various time periods from January 2008 through March 2028. Also in 2009, the District signed an agreement with UAMPS for approximately 5 MW of the Nebo natural gas generation plant capacity. In August 2012, the Horse Butte Wind project began commercial operation and the District owns approximately 15 MW of nameplate capacity that generates about 5 MW on average. The District has also invested in the Veyo Heat Recovery project that came on line in mid-2016. The District will expect about 1.7 MW of carbon free generation from this generation source.

In August of 2007, the District entered into an agreement with Western Area Power Administration (WAPA) for the delivery of Stampede Dam Hydro generation. In accordance with this agreement, the District is entitled to a portion of the power generated by the Stampede Dam Hydro generation. This generation is dependent upon the amount of water that is made available to the generator. This agreement is effective through 2024.

In 2016 and 2015, the UAMPS contract, along with its appendices, and the WAPA contract for Stampede Dam Hydro comprised the majority of a diversified power portfolio that balanced risk and cost for the District.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. CAP AND TRADE PROGRAM PROCEEDS

California Assembly Bill 32 (AB32) is an effort by the State of California to set a 2020 greenhouse gas (GHG) emissions reduction goal into law. AB32 requires California to lower greenhouse gas emissions to 1990 levels by 2020. Central to this initiative is the implementation of a cap and trade program, which covers major sources of GHG emissions in the State including power plants. The California Cap and Trade Program is designed to achieve cost-effective emissions reductions across the capped sectors. The program sets maximum statewide GHG emissions for all covered sectors each year (“cap”), and allows covered entities to sell off allowances (“trade”). An allowance is a tradable permit that allows the emission of one metric ton of CO₂ that they do not need. The California carbon price is driven by allowance trading. The District is subject to AB32 and has excess allowances due to reducing carbon-based generation in its power portfolio.

In 2016 and 2015, the District sold its excess allowances in the program auctions and the proceeds were recorded as \$1,172,306 and \$965,402 operating revenue for the respective years. The auction proceeds are held in a restricted fund and are used to purchase qualified renewable power. (See note 2).

S. INCOME TAXES

As a government agency, the District is exempt from payment of federal and state income taxes.

T. CONTRIBUTED CAPITAL ASSETS

A portion of the District’s capital assets have been obtained through amounts charged to developers for plant constructed by the District; direct contributions of capital assets from developers and other parties; as well as assessments of local property owners. These items are recognized within capital assets as construction is completed for plant constructed by the District based on the cost of the items, when received for contributed capital assets based on the actual or estimated fair value of the contributed items, or upon completion of the related project for development agreements. The District records amounts received within capital contributions when a legally enforceable claim is established. Until the District meets the criteria to record the amounts described above as capital contributions, any amounts received are recorded within unearned revenues on the Statement of Net Position.

U. OTHER – PENSION SIDEFUND

As a result of implementing GASB Statement No. 68, the pension side-fund payoff that occurred in 2011 and which had been reported in the financial statements as an asset was written off due to the District’s participation in CalPERS cost-sharing multi-employer retirement benefit plan. However, the liability for the payoff remains until paid in full thru 2022. The intercompany fund transfers for the principal portion of the debt service between the electric and water utility is included as “other.”

V. PENSION

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 District’s California Public Employee’s Retirement System (CalPERS) plans (Plans) and the additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

W. RECENT ACCOUNTING PRONOUNCEMENTS IMPLEMENTED BY THE DISTRICT

In June 2012, GASB issued Statement No. 68, “*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27.*” The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In November 2013, GASB issued Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*” This statement requires that at transition, the district recognize a beginning deferred outflow of resources for pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The District implemented the statement effective December 31, 2014.

In February 2015, GASB issued Statement No. 72, *Fair Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District implemented the statement in the current year.

In March 2016, GASB issued Statement No. 82, *Pension Issues*, an amendment of GASB Statements No. 67, No. 68, and No. 73. The primary objective of this statement is to address issues regarding (1) presentation of payroll-related measures in required supplementary information, (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District implemented the statement in the current year.

X. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Consists of deferrals for changes in the net pension liability as defined under GASB Statement No. 68.

Y. UNAMORTIZED LOSS ON BOND REFUNDING

For current and advanced refunding results in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt (Gain or loss) is deferred and amortized as a component of interest expense over the remaining life of the old debt or the new debt, whichever is shorter. These amounts are reported as deferred outflow on the statements of net position.

Z. ACCOUNTING PRONOUNCEMENTS TO BE IMPLEMENTED IN UPCOMING YEARS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for the District fiscal year ending December 31, 2017. The District has elected not to implement GASB Statement No. 75 early and has not determined its effect on the District’s financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Z. ACCOUNTING PRONOUNCEMENTS TO BE IMPLEMENTED IN UPCOMING YEARS (CONTINUED)

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (ARO's). The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending December 31, 2018.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents and investments are recorded in accounts as either restricted or unrestricted as required by the District's certificates of participation indentures or other third-party legal restrictions. Restricted assets represent funds that are restricted by certificates of participation covenants or third party contractual agreements. Assets that are allocated by resolution of the Board of Directors are considered to be Board designated assets. Board designated assets are a component of unrestricted assets as their use may be redirected at any time by approval of the Board. Upon Board approval, assets from board designated accounts may be used to pay for selected capital projects. Such accounts have been designated by the Board for the following purposes:

Electric Capital Replacement

Starting in 2009, the Board set aside funds designated for future electric infrastructure replacement.

Electric Vehicle Reserve

Beginning in 2009, the Board set aside funds designated for future electric utility vehicle replacements.

Electric Rate Reserve

In compliance with Board rules, the District created an electric rate stabilization fund in anticipation of future costs. During both 2016 and 2015, there was no utilization of these funds to offset increased power costs in lieu of raising electric rates.

Reserve for Future Meters

Prior to 1992, connection fees charged to applicants for water service included an amount, which was maintained in a designated fund, to offset the cost of future metering. In 2008, the Board adopted an ordinance to charge a \$5 monthly surcharge to all customers of treated water beginning January 2009 through December 2013. Water meters and automated meter reading devices are being installed, and customers will be billed volumetrically in accordance with California Assembly Bill 2572. As meters are installed, these funds are used to pay for related costs.

Water Vehicle Reserve

Beginning in 2009, the Board set aside funds designated for future water utility vehicle replacements.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Prepaid Connection Fees

In compliance with Board rules, the District has set aside prepaid connection fees to cover installation costs of water services.

Debt Service Coverage and Operating Reserve Fund

Effective 2007, the Board has voluntarily set aside funds to improve the District's cash-to-debt-service ratio. In 2016, funds were used for capital projects.

Donner Lake Assessment District Surcharge Fund

The District established a monthly billing surcharge in the amount of \$6.65 applicable to customers in the Donner Lake area to provide revenue to pay the remainder of the cost of reconstruction effective October 2006.

As of December 31, board designated accounts consisted of the following:

	<u>2016</u>	<u>2015</u>
Electric capital replacement fund	\$ 3,428,129	\$ 3,364,783
Electric vehicle reserve	378,880	351,761
Electric rate reserve	4,400,251	4,039,629
Reserve for future meters	533,777	632,967
Water vehicle reserve	-	79,352
Prepaid connection fees	79,181	79,869
Debt service & operating reserve fund	1,847,559	3,283,853
Donner Lake Assessment District surcharge fund	91,760	82,073
Totals	<u>\$ 10,759,537</u>	<u>\$ 11,914,287</u>

Certain assets have been restricted by bond covenants or third party contractual agreements for the following purposes:

Certificates of Participation: Water

In 2015, a portion of the 2006 Certificates of Participation were refunded. The new 2015 refunding did not require a reserve fund. The reserve fund was liquidated and applied towards reducing the debt principal remaining funds are for scheduled debt service.

In 2016, the remaining 2006 Certificates of Participation were refunded.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Facilities Fees

The District charges facilities fees to applicants for new service to cover the costs of infrastructure needed to meet their systems demand. The use of such funds is restricted by California state law.

Department of Water Resources (DWR) Prop 55 Reserve Fund

Regulations relating to the Department of Water Resources loan require the accumulation of a reserve fund as security for each principal and interest payment as they come due. Annual payments into the fund were required for each of the first ten years beginning April 1, 1996. The total reserve fund equals two semi-annual payments and was fully funded during 2006. These funds are set aside for the life of the borrowed amount. All of the reserve funds are invested in the State of California Local Agency Investment Fund.

Glenshire Escrow Account

The District received cash and other assets as part of its acquisition of the Glenshire Mutual Water Company. Also, the District will continue to receive a monthly water system upgrade surcharge from Glenshire residents until November 30, 2017. This cash is utilized to pay the installment loan related to the Glenshire water system improvements as specified in the terms of the acquisition agreement.

In 2011, the District sold a parcel from the Glenshire Mutual Water Company assets. The net proceeds of \$294,940 were transferred to the Glenshire Escrow Account and the monthly water system upgrade surcharge was reduced from \$10.75 to \$4.75.

Donner Lake Special Assessment District Improvement and Reserve Fund

The District established the Donner Lake Special Assessment District (DLAD) Improvement Fund to account for all funds received from the Special Assessment Receivable, which will be used to pay the debt service costs related to the Donner Lake Water System project. The DLAD Improvement Fund also has a reserve fund as required by the California – Safe Drinking Water – State Revolving Fund (SRF). This fund is required to set aside \$40,043 semi-annually for ten years beginning in 2006.

Solar Initiative Fund

The California Solar Initiative Senate Bill 1 (SB1) was enacted in 2006, mandating that all publicly-owned electric utilities within the State of California, prepare, adopt and implement a solar rebate program by January 2008 to encourage its customers to install solar energy systems.

In 2007, the Board adopted a rebate program effective January 2008, targeting \$177,400 annually over ten years to be used as rebates for the installation of solar electricity systems and to raise these funds through a customer surcharge.

In 2016 and 2015, the rebate program exceeded rebate collections eliminating the need to restrict rebate proceeds. In 2016, the required rebates were awarded ending the SB1 rebate program. The monthly SB1 customer charge will continue through 2017 so the District electric utility will be reimbursed for advancing the rebates through 2017.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

AB32 Cap and Trade Auction Fund

California Assembly Bill 32 (AB32) is an effort by the State of California to set a 2020 greenhouse gas (GHG) emissions reduction goal into law. AB32 requires California to lower greenhouse gas emissions to 1990 levels by 2020. Central to this initiative is the implementation of a cap and trade program, which covers major sources of GHG emissions in the State including power plants. The California Cap and Trade Program is designed to achieve cost-effective emissions reductions across the capped sectors. The program sets maximum statewide GHG emissions for all covered sectors each year (“cap”), and allows covered entities to sell off allowances (“trade”). An allowance is a tradable permit that allows the emission of one metric ton of CO₂ that they do not need. The California carbon price is driven by allowance trading. The District is subject to AB32 and has excess allowances due to reducing carbon-based generation in its power portfolio.

The District electric utility is identified as an “Electric Distribution Utility” under the Cap and Trade regulations and is therefore eligible to receive a direct allocation of allowances that can be sold in an auction. The proceeds from quarterly allowance auctions are held in this restricted fund and are used to purchase qualified renewable power. These funds are intended to mitigate the burden on the consumer without impacting a carbon price signal.

Other (Area Improvement Funds)

The District received funds from the County of Nevada, which are to be used only for improvements to specific areas within the District’s boundaries in Nevada County. These areas include various Nevada County assessment districts.

As of December 31, restricted cash and cash equivalents and investments consisted of the following:

	<u>2016</u>	<u>2015</u>
Certificates of Participation	\$ 537,586	\$ 641,699
Facilities fees	607,235	514,264
DWR-Prop 55 reserve fund	315,571	312,670
Glenshire escrow accounts	95,695	175,403
Donner Lake Special Assessment District improvement	2,593,139	2,517,494
Donner Lake Special Assessment District reserve fund	804,801	800,852
AB 32 Cap and Trade Auction fund	1,163,035	947,269
Other (area improvement funds)	<u>52,256</u>	<u>51,776</u>
Total Restricted Cash and Cash Equivalents and Investments	<u>\$ 6,169,318</u>	<u>\$ 5,961,427</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Cash and investments are comprised of the following cash and cash equivalents and investments as of December 31:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 22,881,498	\$ 22,593,595
Mark to market adjustment	156,705	199,593
Investments – government bonds	1,698,880	1,698,880
Totals	<u>\$ 24,737,083</u>	<u>\$ 24,492,068</u>

Cash and cash equivalents and investments were \$24,737,083 and \$24,492,068 at December 31, 2016 and 2015, respectively. Cash equivalents substantially consist of deposits in the state pooled fund, Placer County pooled fund, money market funds, and government bonds. For purposes of the Statements of Cash Flows, the District considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Adjustments necessary to record investments at market value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

FAIR VALUE MEASUREMENT

The District applies the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which requires governmental entities, to report certain investments at fair value on the Statements of Net Position.

Investments are valued at fair value at December 31. Fair value is defined as 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. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices for identical instruments in active markets. Level 2 inputs are quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs are observable. Level 3 inputs are valuations derived from valuation techniques in which significant inputs are unobservable.

The District classifies its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The district as the following fair value measurements as of December 31, 2016:

- US Government bonds and Money Market Funds are valued using observable inputs (Level 2 inputs).

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

INVESTMENTS AUTHORIZED BY THE DISTRICT'S INVESTMENT POLICY

The District adopted an investment policy in 2006 which allowed for investments in instruments permitted by the California Government Code and/or the investments permitted by the trust agreements on District financing, including investments in the local government investment fund pool administered by the State of California (LAIF), Placer County Treasurer's Investment Portfolio (PCTIP) pooled investment, and Utah Public Treasurers' Investment Fund (UPTIF). The District's investment policy contains provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk. At December 31, 2016 and 2017 the District's deposits and investments were held as follows:

Table with 3 columns: Investment Category, 2016, and 2015. Rows include Cash on hand, Deposits, LAIF, PCTIP, UPTIF, Money Market Funds, Government Bonds, and Totals.

DISCLOSURES RELATING TO INTEREST RATE RISK

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the District's investments by maturity for 2015 and 2014:

Table with 2 columns: Investment and Deposits, and Maturity. Lists various investment types and their corresponding maturity periods.

DISCLOSURES RELATING TO CREDIT RISK

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF, PCTIF and UPTIF do not have a rating provided by a nationally recognized statistical rating organization. Federal Farm Credit Banks is rated AA+ by S&P and Aaa by Moody's. The Dreyfus Treasury Securities is rated Aaa-mf by Moody's and AAAM by S&P. The Fidelity Money Market is rated AAA-mf by Moody's and AAAM by S&P.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless waived by the government unit). The market value of pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

As of December 31, 2016 and 2015 all deposits were fully insured or collateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as LAIF).

DEPOSIT IN STATE INVESTMENT POOL

The District is a voluntary participant in the Local Agency Investment Fund (LAIF). This investment fund has an equity interest in the State of California's (State's) Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the LAIF, which are recorded on an amortized cost basis.

DEPOSIT IN PLACER COUNTY TREASURER INVESTMENT POOL

The District is a voluntary participant in the Placer County Investment Portfolio (PCTIP). The District is eligible to participate in PCTIP because a portion of the District's service area is in Placer County. Investments are on deposit with the Placer County Treasurer and are managed in compliance with the California Government Code according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by Placer County Treasurer for the entire PCTIP (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the Placer County Treasurer, which are recorded on an amortized cost basis.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

DEPOSIT IN UTAH PUBLIC TREASURERS' INVESTMENT FUND

The District is a voluntary participant in the Utah Public Treasurers' Investment Fund (UPTIF). The District is eligible to participate in UPTIF through its membership with Utah Associated Municipal Power Systems (UAMPS). Investments are on deposit with State of Utah public treasury and investments are restricted to those authorized by the Utah Money Management Act and rules of the Money Management Council of Utah. The fair value of the District's investments in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by UPTIF through UAMPS Member Retention Fund.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of the following at December 31, 2016 and 2015:

	<u>January 1,</u>			<u>December 31,</u>
	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2016</u>
Electric distribution facilities	\$ 54,721,615	\$ 4,391,867	\$ (767,792)	\$ 58,345,690
Water distribution facilities	107,005,578	2,023,496	(168,249)	108,860,825
General plant	13,887,881	1,332,733	(158,336)	15,062,278
	175,615,074	7,748,096	(1,094,377)	182,268,793
Less: Accumulated depreciation	(58,042,448)	(6,485,285)	1,154,994	(63,372,739)
Construction work in progress	4,844,042	7,686,181	(7,823,947)	4,706,276
Totals	<u>\$ 122,416,668</u>	<u>\$ 8,948,992</u>	<u>\$ (7,763,330)</u>	<u>123,602,331</u>

	<u>January 1,</u>			<u>December 31,</u>
	<u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>2015</u>
Electric distribution facilities	\$ 51,524,863	\$ 3,777,881	\$ (581,129)	\$ 54,721,615
Water distribution facilities	103,049,122	5,653,380	(1,696,924)	107,005,578
General plant	12,816,635	1,314,555	(243,308)	13,887,881
	167,390,620	10,745,816	(2,521,362)	175,615,074
Less: Accumulated depreciation	(54,475,747)	(6,204,361)	2,637,661	(58,042,448)
Construction work in progress	6,407,589	9,188,877	(10,752,425)	4,844,042
Totals	<u>\$ 119,322,462</u>	<u>\$ 13,730,332</u>	<u>\$ (10,636,125)</u>	<u>\$ 122,416,668</u>

As of December 31, 2016 and 2015, the plant in service included land and land rights of \$3,318,346 and \$2,622,946 respectively which are not being depreciated.

A portion of the plant has been contributed to the District. When replacement is needed, the District replaces the contributed plant with District-financed plant.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 4 – TELECOMMUNICATION SERVICES

In 1999, the District initiated a project to expand their basic service offerings to include internet access, cable television and voice delivered over fiber optic networks (the broadband project). The District completed the broadband design project and obtained the necessary regulatory approvals and franchises needed to construct and launch the broadband project. A local cable television service provider filed an objection in September 2004 with the Nevada County Local Agency Formation Commission (LAFCO), the entity responsible for providing regulatory approval for the broadband project. After denying the cable television provider's request for a reconsideration of their approval of the District's project, the cable television provider filed a lawsuit against LAFCO. The District was not named in the lawsuit. A ruling on the lawsuit was received in January 2006. LAFCO prevailed on all portions of the cable television provider's claim. The cable television provider filed an appeal; however, in June of 2007, the Court ruled in favor of LAFCO, upholding the initial ruling.

Since 2009, the District has been exploring options to sell or lease the existing infrastructure to provide a return on investment in the project. Expenses incurred by the District to date on the broadband project total \$2,834,079, of which \$496,990 was expensed in 2014 for legal fees and preliminary feasibility studies. In 2016 and 2015 there were no material expenditures for this project. The District is however investigating a Memorandum of Understanding with Plumas Sierra Telecommunications to potentially offer services utilizing these four fibers from Reno to Sacramento in future years.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 5 – LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2016:

	<u>January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>	<u>Due within one year</u>
Pension Obligation Bonds					
Electric, 5% due semi-annually refinanced in 2016	\$ 5,584,000	\$ -	\$ (5,584,000)	\$ -	\$ -
Pension Obligation Bonds					
Electric, 2.47% due semi-annually	-	5,589,000	(440,000)	5,149,000	809,000
State Revolving Fund Loan –					
Water, 2.34%, due semi-annually beginning in 2006 to 2026	7,417,358	-	(630,956)	6,786,402	645,807
Certificates of Participation –					
Water, 4.00% to 5.00%, due serially to 2021 refinanced in 2016	3,765,000	-	(3,765,000)	-	-
Certificates of Participation –					
Water, 1.54% due serially to 2021	-	3,266,000	-	3,266,000	632,000
Certificates of Participation –					
Water, 2.00% to 4.00%, due serially to 2035 (net premiums of \$502,077)	14,544,095	-	(547,018)	13,997,077	535,000
Department of Water Resources, 3.18%, due semiannually to 2021, secured by real and personal property.	1,535,448	-	(259,705)	1,275,743	268,092
Installment loans, 5.4% to 6.23%, various payment terms and due dates, secured by equipment.	673,789	-	(299,242)	374,548	316,144
Totals	<u>\$ 33,519,690</u>	<u>\$ 8,855,000</u>	<u>\$ (11,525,921)</u>	<u>\$ 30,848,770</u>	<u>\$ 3,206,043</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 5 – LONG-TERM DEBT (Continued)

Long-term debt consisted of the following at December 31, 2015:

	<u>January 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2015</u>	<u>Due within one year</u>
Pension Obligation Bonds					
Electric, 5% due semi-annually	\$ 6,177,000	\$ -	\$ (593,000)	\$ 5,584,000	\$ 656,000
State Revolving Fund Loan – Water, 2.34%, due semi-annually beginning in 2006 to 2026.	8,033,804	-	(616,446)	7,417,358	630,956
Certificates of Participation – Water, 4.00% to 5.00%, due serially to 2021 A portion was refunded in 2015	20,427,202	-	(16,662,202)	3,765,000	570,000
Certificates of Participation – Water, 2.00% to 4.00%, due serially to 2035 (net premiums of \$529,095)	-	15,120,352	(576,257)	14,544,095	520,000
Department of Water Resources, 3.18%, due semiannually to 2021, secured by real and personal property.	1,787,132	-	(251,685)	1,535,448	259,705
Installation loans, 5.4% to 6.23%, various payment terms and due dates, secured by equipment.	957,385	-	(283,596)	673,789	299,259
Totals	<u>\$ 37,382,523</u>	<u>\$ 15,120,352</u>	<u>\$ (18,983,186)</u>	<u>\$ 33,519,690</u>	<u>\$ 2,935,920</u>

During April 2004, the District obtained financing in the form of a State Revolving Fund Loan, the proceeds of which were utilized in the replacement of the Donner Lake water system. The District submitted expenditures to the State for reimbursement of \$12,732,965. The semi-annual principal and interest payments are \$400,426 and commenced in 2006. The District is also required to fund a reserve account by making semi-annual reserve payments in the amount of \$40,043 for a 10-year period. In 2004, the remaining balance of \$12,227,122 was used to pay off the temporary lines of credit obtained in 2001 and 2002 to fund the Donner Lake project. (See note 8).

On October 12, 2006, Truckee Donner Public Utility District Financing Corporation issued \$26,570,000 of Certificates of Participation to refund 100% of the outstanding balance of Certificates issued in 1996, complete the funding of the Donner Lake Assessment District water system, and fund water system capital improvements. The refunding portion of the 2006 COP's, totaling \$8,465,000, has an average interest rate of 4.10%. The refunded 1996 COP's had an average interest rate of 5.41%. The net proceeds of \$7,500,557 (after payment of \$63,733 in underwriting fees, insurance and other issuance costs) plus an additional \$1,315,194 of reserve fund monies were used to prepay the outstanding debt service requirements on the 1996 COP's. The terms of the Certificates call for payments to be made only from the net revenues of the Water Division and the debt is secured by this revenue. These revenues are required to be at least equal to 125% of the debt service for each year.

In 2015, a portion of the 2006 COP was refunded. Since a portion of the 2006 COP was used for advance refunding of previous COP, that portion could not be advance refunded. The new 2015 refunding did not

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 5 – LONG-TERM DEBT (Continued)

require a reserve fund. The reserve fund was liquidated and applied towards reducing the debt principal. The estimated net present value savings are \$1,600,000 or 10% over the remaining life of issuance.

In 2016, the remaining portion of the 2006 COP was refunded. The estimated net present value savings is \$222,000 or 5.8% over the remaining life of issuance.

Under the Safe Drinking Water Bond Law of 1986, the Department of Water Resources provided a \$5,000,000 loan to the District in 1993. The loan was to finance capital improvements to the public water supply and to reduce water quality hazards. The terms of the loan call for payments to be made only from the net revenues of the Water Division, which are required to be sufficient to pay the debt service for each year.

In June 2011, the District refunded (refinanced) an existing \$7.8 million pension side fund obligation for its participation in CalPERS. Prior to 2011, the annual side fund payments were expensed and described in the Notes to Financial Statements. The pension side fund liability was amortized through June 2022 with a 7.75% rate. This liability was not required to be reported on the District's Statement of Net Position, but the future pension expense was included in budget and rate calculations. The new refunding rate of 5% reduced the District's annual pension costs by almost \$100,000 through 2022. In 2016, the District refunded the pension side fund again earning the District annual savings of \$30,000 or \$164,000 in total.

As a normal part of its operations, the District finances the acquisition of certain assets through the use of installment loans. These loans have been used to finance the purchase of vehicles, equipment, and certain water system improvements. There were no additional installment loans in 2016 or in 2015.

Scheduled payments on debt are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,206,043	\$ 884,765	\$ 4,090,808
2018	3,006,314	797,286	3,803,600
2019	3,117,221	724,222	3,841,443
2020	3,228,784	648,447	3,877,231
2021	3,179,833	571,195	3,751,028
2022-2026	7,363,498	1,959,576	9,323,074
2027-2031	4,110,000	1,050,625	5,160,625
2032-2036	3,135,000	270,175	3,405,175
	<u>\$ 30,346,693</u>	<u>\$ 6,906,291</u>	<u>\$ 37,252,984</u>
Plus: Unamortized premiums	<u>502,077</u>		
	<u>\$ 30,848,770</u>		

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 6 – UNEARNED REVENUES

Transactions that have not yet met revenue recognition requirements are recorded as a non-current liability and reflected in the accompanying Statement of Net Position. As of December 31, 2016 and 2015, unearned revenues consist of unearned development agreement deposits, connection fees, and other deposits.

Unearned revenues consisted of the following at December 31, 2016 and 2015:

	<u>January 1,</u> <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2016</u>
Development agreement deposits	2,156,844	644,922	(564,436)	2,237,331
Connection fees and other deposits	1,069,865	987,610	(1,221,299)	836,177
Totals	<u>\$ 3,226,709</u>	<u>\$ 1,632,532</u>	<u>\$ (1,785,734)</u>	<u>\$ 3,073,507</u>

	<u>January 1,</u> <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2015</u>
Development agreement deposits	1,843,013	738,336	(424,505)	2,156,844
Connection fees and other deposits	943,750	1,085,304	(959,189)	1,069,865
Totals	<u>\$ 2,786,763</u>	<u>\$ 1,823,640</u>	<u>\$ (1,383,694)</u>	<u>\$ 3,226,709</u>

NOTE 7 – DONNER LAKE WATER COMPANY ACQUISITION

In 2001, the District acquired the Donner Lake Water Company by initiating an eminent domain lawsuit. As a part of the takeover, the District replaced the entire water system, which cost approximately \$15.6 million and was completed in 2006. The District initially estimated the replacement cost to be \$13 million. The Donner Lake property owners agreed to reimburse the District for the full costs of the replacement. Therefore, an assessment was placed on each Donner Lake homeowner's property for a pro-rata share of the \$13 million payable immediately or with an option to pay over 20 years. The assessment is collected by Nevada County and Placer County on behalf of the District and is secured by the Donner Lake property owners. A monthly \$6.65 water system upgrade surcharge is paid by the Donner Lake customers to reimburse the District for the \$2.6 million cost incurred in excess of the assessment.

In April 2004, the District obtained financing in the form of a State Revolving Fund Loan for \$12,732,965 at a rate of 2.34%. The District is required to fund a reserve account by making semi-annual reserve payments in the amount of \$40,043 for a 10-year period. The reserve is fully funded as of December 31, 2016.

As of December 31, 2016 and 2015, the assessment receivable from the property owners was \$3,692,876 and \$4,363,790 respectively, of which \$714,622 and \$694,710 is due in the next year. These amounts are shown as Special Assessments Receivable in the Statement of Net Position. The proceeds of the assessment and surcharge are placed in the Donner Lake Special Assessment District Improvement Fund and used to pay the debt service for the water system improvements.

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 8 – EMPLOYEE BENEFIT PLANS

A. PENSION PLANS

Plan Description – All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual costs of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefits is Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law. The 2.7% at 55 Miscellaneous Plan is closed to new entrants.

The plans’ provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit Formula	2.7% @ 55	2% @ 62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	50 and Up	52 and Up
Monthly Benefits, as a % of eligible compensation	2.0% - 2.7%	1.0% to 2.5%
Required Employee Contributions Rates	8%	6.25%
Required Employer Contributions Rates	11.008%	6.555%

Contributions – Section 208149(c) of the California Public Employee’s Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit Formula	2.7% @ 55	2% @ 62
2016 Employer Contributions	\$979,835	\$69,062
2015 Employer Contributions	\$917,113	\$33,034

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

B. PENSION LIABILITIES, PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSIONS

As of December 31, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability as follows:

Proportionate Share of Net Pension Liability	
Fiscal Year Ending	
June 30, 2016	June 30, 2015
\$10,250,329	\$8,013,400

The District's net pension liability is measured as a proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan for the measurement date of June 30, 2016 and June 30, 2015 is as follows:

Measurement Date	Percentage Share of Risk Pool		Change
	June 30, 2016	June 30, 2015	
Percentage of Plan NPL	0.29837%	0.29209%	0.00628%

For the years ended December 31, 2016 and 2015 the District recognized pension expense of \$1,220,591 and \$535,372 respectively. At December 31, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$773,689	
Differences between actual and expected experience	39,148	(8,286)
Changes in assumptions		(370,377)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	239,834	(41,400)
Net differences between projected and actual earnings on plan investments	2,952,379	(1,177,063)
Total	\$4,005,050	(\$1,597,126)

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

B. PENSION LIABILITIES, PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSIONS (*Continued*)

\$773,689 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2017	\$158,022
2018	\$191,462
2019	\$823,549
2020	<u>\$461,202</u>
	\$1,634,235

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous 2016
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	.
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality (1)	Derived using CalPERS membership data for all funds

(1) The mortality table used was developed based on CalPERS' specific data. The Table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

B. PENSION LIABILITIES, PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSIONS (Continued)

Discount Rate - The discount rate used to measure the total pension liability as of December 31, 2016 was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate used 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 that can be obtained from the CalPERS website.

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown below was adopted by CalPERS' Board effective on July 1, 2015.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (a)</u>	<u>Real Returns Years 11+(b)</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
	<u>100.0%</u>		

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

B. PENSION LIABILITIES, PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSIONS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

Miscellaneous	
Measurement Date	June 30,2016
1% Decrease	6.65%
Net Pension Liability	\$15,969,742
Current Discount Rate	7.65%
Net Pension Liability	\$10,250,329
1% Increase	8.65%
Net Pension Liability	\$5,523,516

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

C. PAYABLE TO THE PENSION PLAN

At December 31, 2016 and 2015 respectively the District did not report a payable for outstanding required contributions to the pension plan.

D. DEFERRED COMPENSATION PLAN

The District maintains two deferred compensation plans: a 401(a) and a 457 plan, (the Plans) for certain qualified employees. The District matches 6.78% of eligible employee contributions. In 2016 and 2015, the total match was \$88,494 and \$53,605 in the respective years. The District has no liability for losses under the Plans, but does have the duty of due care that would be required of an ordinary prudent investor. The District has not reflected the Plans’ assets and corresponding liabilities (if any) on the accompanying Statement of Net Position.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

E. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The District administers a single-employer defined benefit healthcare plan (The Retiree Health Plan). Contribution requirements and benefit provisions are established through collective bargaining agreements and may be amended only through negotiations between the District and the Union. The plan provides health insurance contributions for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. Health insurance includes medical insurance, dental insurance, and prescriptions. The Retiree Health Plan does not issue a publicly available financial report.

Post employment health care is available to all employees, and qualified dependents, that retire from the District with at least 10 years of service. As of June 30, 2015, there were fifty participants including dependents. The monthly amount paid by the District is capped at \$475 for each participant or \$375 for each participant eligible for Medicare. For participants with less than 20 years of service, the benefit is reduced by 5% for each year. Expenditures for post employment health care benefits are recognized when premiums are paid.

On November 7, 2007, the Board approved a participation agreement with CalPERS to be the plan administrator for the District's other post employment benefit (OPEB) trust. The participation agreement was submitted to CalPERS on November 8, 2007, and became effective on January 15, 2008. At that time, accumulated deposits from the prior year, plus accrued interest, were transferred to the California Employers' Retiree Benefit Trust Program (CERBT).

The funds of the Retiree Health Plan are invested in CERBT, which is a tax qualified trust organized under Internal Revenue Code (IRC) Section 115. Participation in the trust is limited to those agencies who qualify as "government" entities under that IRC section. The CERBT is an irrevocable trust established for the purpose of receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries. The CERBT administrative costs are financed through investment earnings. Copies of the CalPERS' comprehensive annual financial report, that includes CERBT investment performance, may be obtained from:

California Public Employees' Retirement System
400 Q Street
P.O. Box 942701
Sacramento, CA 94229-2701
Tel. 888-225-7377
<http://www.calpers.ca.gov>

The District's annual OPEB expense is calculated based on the ARC, an amount actuarially determined in accordance within the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year. The plan's unfunded actuarial accrued liability prior to June 30, 2015 is being amortized as a level percentage of projected payrolls on an open basis, over a period not to exceed 30 years, using the entry age normal cost method. The June 30, 2015 unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis, over a 20 year period, using the actuarial cost method.

The District's actual annual OPEB contribution is recognized as in the District's operating expenses. The following table shows the components of the amount actually contributed to the plan, and changes in the net OPEB obligation to the Retiree Health Plan:

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

E. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Fiscal Year Ended*	Annual Required Contribution (ARC)	Interest and Adjustments	Annual OPEB Cost	Actual Contribution	% of Annual OPEB Cost Contributed	Change in Net OPEB Obligation (Asset)	OPEB Obligation (Asset) Beginning	Net OPEB Obligation (Asset) Ending
06/30/2013	\$ 267,800	\$ 628	\$ 268,428	\$ 304,556	113.5%	\$ (36,128)	\$ (8,205)	\$ (44,333)
06/30/2014	\$ 267,800	\$ -	\$ 267,800	\$ 268,498	100.3%	\$ (698)	\$ (44,333)	\$ (45,031)
06/30/2015	\$ 647,851	\$ -	\$ 647,851	\$ 274,029	42.3%	\$ 373,822	\$ (45,031)	\$ 328,791
06/30/2016	\$ 665,667	\$ -	\$ 665,667	\$ 275,240	41.3%	\$ 390,427	\$ 328,791	\$ 719,217

Actuarial valuations of an ongoing plan are required at least once every two years and involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Significant actuarial assumptions for years prior to June 30, 2015 include:

Actuarial Cost Method	Projected Unit Credit
Asset Valuation Method	Five-year spread of gain/loss, beginning with 2009-10 Gain/loss on market value basis compared to assumption
Discount Rate	7.5%
General Inflation	3% Annual Increase
Amortization of Unfunded Liability	23 years; level annual payments

Significant actuarial assumptions after June 30, 2015 include:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Five-year smoothing formula with a 20% corridor around market value
Discount Rate	7.0%
General Inflation	2.75% Annual Increase
Amortization of Unfunded Liability	Closed 30 years; level percent for initial UAAL Open 20 years; level percent for residual UAAL

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 8 – EMPLOYEE BENEFIT PLANS (Continued)

E. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

The following is a funding schedule for the Retiree Health Plan:

Schedule of Retiree Health Plan Funding Progress

Valuation Date*	Accrued Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
01/01/2011	\$ 2,501,800	\$ 645,700	\$ 1,856,100	25.8%	\$ 6,307,400	29.4%
07/01/2011	\$ 2,657,000	\$ 661,400	\$ 1,995,600	24.9%	\$ 6,226,000	32.1%
07/01/2013	\$ 2,960,600	\$ 1,079,900	\$ 1,880,700	36.5%	\$ 6,409,000	29.3%
07/01/2015	\$ 6,755,593	\$ 1,579,982	\$ 5,175,611	23.4%	\$ 6,360,511	81.4%

*Valuations are required once every two years. In 2011, the valuation date changed to July 1 in compliance with GASB Statement No. 57.

The actuarial valuation issued July 1, 2015 had a significant increase in accrued liability of \$3.8 million due to a new Actuarial Standard of Practice 6 that became effective for valuations after March 1, 2015 that requires valuing an “implicit rate subsidy”. Though the District has an employer cap on retiree benefits, the liability of providing them based on the expected premiums of the plan are now required to be recognized in the actuarial valuation to guarantee the stability of the plan for the long run which nearly doubled the normal costs and liabilities.

NOTE 9 – SELF FUNDED INSURANCE

The District has a self-funded vision insurance program and claims were processed by and on behalf of the District. The District did not maintain a claim liability; rather claims were expensed as paid. The amount of claims paid for each of the past three years have not been material.

NOTE 10 – SEGMENT DISCLOSURE

The District has issued revenue bonds to finance electric and water distribution facilities. The District also issued special tax bonds secured by tax revenues from Mello-Roos Community Facilities Districts. Each project has an external requirement to be reported separately, and investors in the revenue bonds and special tax bonds rely solely on the revenue generated by the individual projects for repayment. Summary financial information for each project is presented on the following pages for the years ending December 31, 2016 and 2015.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 10 – SEGMENT DISCLOSURE (Continued)

STATEMENT OF NET POSITION

	<u>December 31, 2016</u>	
	Electric	Water
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets	\$ 19,438,054	\$ 9,475,927
Non-current assets:		
Capital assets, net	47,660,186	75,942,145
Restricted assets	-	1,876,032
Other long term assets	<u>925,520</u>	<u>3,692,876</u>
Total Noncurrent Assets	<u>48,585,706</u>	<u>81,511,053</u>
Deferred outflows of resources		
Pension	2,403,030	1,602,020
Unamortized loss on refunding	-	609,580
Unamortized redemption premium	<u>149,934</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>2,552,964</u>	<u>2,211,600</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 70,576,724</u>	<u>\$ 93,198,580</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
Current liabilities	\$ 4,312,570	\$ 2,949,891
Non-current Liabilities		
Long-term debt, net of current portion	4,398,403	23,244,323
Net pension liability	6,150,197	4,100,132
OPEB liability	431,530	287,687
Unearned revenues	<u>2,587,458</u>	<u>486,049</u>
Total Noncurrent Liabilities	<u>13,567,588</u>	<u>28,118,191</u>
Total Liabilities	<u>17,880,158</u>	<u>31,068,082</u>
Deferred inflows of resources		
Pension	<u>958,276</u>	<u>638,850</u>
Total Deferred Inflows of Resources	<u>958,276</u>	<u>638,850</u>
Net Position		
Net investment in capital assets	42,500,995	50,920,550
Restricted for debt service	1,316,355	4,695,114
Unrestricted	<u>7,920,940</u>	<u>5,875,984</u>
Total Net Position	<u>51,738,290</u>	<u>61,491,648</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 70,576,724</u>	<u>\$ 93,198,580</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 10 – SEGMENT DISCLOSURE (Continued)

STATEMENT OF NET POSITION (CONTINUED)

	<u>December 31, 2015</u>	
	Electric	Water
ASSETS AND DEFERRED		
OUTFLOWS OF RESOURCES		
Current assets	\$ 16,871,099	\$ 11,359,701
Non-current assets:		
Capital assets, net	47,078,580	75,338,088
Restricted assets	-	1,900,036
Other long-term assets	997,853	4,363,790
Total Noncurrent Assets	<u>48,076,433</u>	<u>81,601,914</u>
Deferred outflows of resources		
Pension	1,579,246	1,052,831
Unamortized loss on refunding	-	642,382
Total Deferred Outflows of Resources	<u>1,579,246</u>	<u>1,695,213</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 66,526,778</u>	 <u>\$ 94,656,828</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
Current liabilities	\$ 4,388,630	\$ 2,912,146
Non-current Liabilities		
Long-term debt, net of current portion	4,996,594	25,587,176
Net pension liability	4,808,040	3,205,360
Unearned revenues	2,585,854	640,855
Total Noncurrent Liabilities	<u>12,390,488</u>	<u>29,433,391</u>
Total Liabilities	<u>16,779,118</u>	<u>32,345,537</u>
Deferred inflows of resources		
Pension	1,405,042	936,695
Total Deferred Inflows of Resources	<u>1,405,042</u>	<u>936,695</u>
Net Position		
Net investment in capital assets	40,828,835	47,786,674
Restricted for debt service	944,929	4,817,195
Unrestricted	6,568,854	8,770,727
Total Net Position	<u>48,342,618</u>	<u>61,374,596</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	 <u>\$ 66,526,778</u>	 <u>\$ 94,656,828</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 10 – SEGMENT DISCLOSURE (Continued)

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

Year ended December 31, 2016

	Electric	Water
Operating Revenues		
Sales to consumers	\$ 21,713,614	\$ 11,312,973
Other operating revenues	3,357,601	749,177
Operating expenses	(20,222,867)	(8,171,428)
Depreciation	(2,576,192)	(3,660,841)
Non-operating revenues (expenses)	12,076	(700,499)
Income (loss) before capital contributions	2,284,232	(470,618)
Capital contributions, net	1,111,440	587,670
CHANGE IN NET POSITION	3,395,672	117,052
 Net Position, Beginning	 48,342,618	 61,374,596
 NET POSITION, ENDING	 \$ 51,738,290	 \$ 61,491,648

Year ended December 31, 2015

	Electric	Water
Operating Revenues		
Sales to consumers	\$ 20,505,263	\$ 10,313,593
Other operating revenues	3,156,585	475,484
Operating expenses	18,944,380	7,461,394
Depreciation	2,375,757	3,584,763
Non-operating revenues (expenses)	106,127	(868,838)
Income (loss) before capital contributions	2,447,838	(1,125,918)
Capital contributions, net	1,058,835	371,675
CHANGE IN NET POSITION	3,506,673	(754,243)
 Net Position, Beginning	 44,835,945	 62,128,839
 NET POSITION, ENDING	 \$ 48,342,618	 \$ 61,374,596

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 10 – SEGMENT DISCLOSURE (Continued)

STATEMENTS OF CASH FLOWS

	<u>Year ended December 31, 2016</u>	
	<u>Electric</u>	<u>Water</u>
NET CASH PROVIDED BY (USED IN)		
Operating activities	\$ 5,549,180	\$ 3,719,688
Noncapital financing activities	(921,171)	-
Capital and related financing activities	(2,233,583)	(6,189,302)
Investing activities	114,807	292,186
Net increase (decrease) in cash and cash equivalents	2,509,233	(2,177,428)
Cash and Cash Equivalents, Beginning	12,930,593	9,663,002
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 15,439,826</u>	<u>\$ 7,485,574</u>

	<u>Year ended December 31, 2015</u>	
	<u>Electric</u>	<u>Water</u>
NET CASH PROVIDED BY (USED IN)		
Operating activities	\$ 5,230,727	\$ 3,052,344
Noncapital financing activities	(894,725)	-
Capital and related financing activities	(4,820,206)	(6,781,907)
Investing activities	89,048	324,675
Net increase (decrease) in cash and cash equivalents	(395,156)	(3,404,888)
Cash and Cash Equivalents, Beginning	13,325,749	13,067,890
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 12,930,593</u>	<u>\$ 9,663,002</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 11 – MARTIS VALLEY GROUNDWATER STUDY

The Martis Valley aquifer underlies about 35,000 acres in both Placer and Nevada counties, near the Town of Truckee. It is the main water supply for numerous public and private entities. This area has seen significant growth in the last few decades with more planned for the future. Maintaining an adequate water supply and protecting water quality are critical for the region's future.

The Truckee Donner Public Utility District (TDPUD), Northstar Community Services District (NCSD) and Placer County Water Agency (PCWA) are the three primary public water agencies in the Martis Valley Basin. Together, the TDPUD, NCSD and PCWA (Partnership Agencies) partnered to update a groundwater management plan and to help develop a groundwater model for the Martis Valley basin.

The Martis Valley Groundwater Management Plan (GMP) has been updated to reflect current water resources planning in the region and to incorporate the latest information and understanding of the underlying groundwater basin. This collaborative effort will provide the guidance necessary to align groundwater policy. In addition to the updated groundwater management plan, a computer model of the groundwater basin is being developed, which will incorporate available data and enhance understanding of the groundwater basin. A climate change modeling component will be part of the final groundwater model.

Partner agencies each adopted the Groundwater Management Plan (GMP) in February 2012 and the model and associated report was completed in 2015. The total cost of the project was approximately \$1,000,000, which includes federal funding of approximately \$500,000 from the U.S. Bureau of Reclamation and \$250,000 from the Lawrence Livermore National Laboratory; and contributions of \$150,000 from TDPUD and \$100,000 from the other members of the Partnership Agencies.

In mid 2016, the California Sustainable Groundwater Management Act of 2014 (SGMA) took effect which the District was the submitting agency of an alternate submittal in December on behalf of the Town, Placer County, Nevada County, PCWA, and Northstar CSD - to comply with the new regulations. There was an adopted MOA amongst the six local agencies.

NOTE 12 – CLAIMS AND JUDGMENTS

From time to time, the utility is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utility's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utility's financial position or results of operations.

NOTE 13 – RISK MANAGEMENT

The utility is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2016

COST SHARING DEFINED BENEFIT PENSION PLANS

Schedule of the District's Proportionate Share of the Net Pension Liability

Cost Sharing Defined Benefit Plans

As of June 30

Last Ten Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Portion of Net Pension Liability	0.29837%	0.29209%	0.09982%
Proportionate Share of The Net Pension Liability	\$10,250,329	\$8,013,400	\$6,210,985
Covered - Employee Payroll	\$6,670,248	\$6,162,431	\$6,278,545
Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	153.67%	130.04%	98.92%
Plan's Fiduciary Net Position	\$30,950,578	\$30,725,516	\$30,386,101
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	75.12%	79.31%	75.44%

* Fiscal year 2014 was the 1st year of implementation, therefore only three years are shown

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2016

Schedule of Contributions

Cost Sharing Defined Benefit Plans

As of June 30
Last Ten Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution (Actuarially Determined)	\$1,011,908	\$950,147	\$943,118
Contributions in Relation to the Actuarially Determined Contributions	<u>\$1,048,897</u>	<u>\$949,634</u>	<u>\$943,118</u>
Contribution deficiency (excess)	(\$36,989)	\$513	\$0
Covered - Employee Payroll	\$6,670,248	\$6,162,431	\$6,278,545
Contributions as a percentage of covered-employee payroll	16%	15%	15%

* Fiscal year 2014 was the 1st year of implementation, therefore only three years are shown

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2016

POSITION OF OTHER POST EMPLOYMENT BENEFIT PLANS

Retiree Health Plan Funding History

For the Years Ended January 1, 2006, 2007, 2009, 2011 and July 1, 2011, 2013, 2015*

Valuation Date*	Accrued Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
01/01/2006	\$ 2,328,500	\$ -	\$ 2,328,500	0.0%	\$ 5,542,800	42.0%
01/01/2007	\$ 1,369,600	\$ 198,800	\$ 1,170,800	14.5%	\$ 4,925,600	23.8%
01/01/2009	\$ 1,748,000	\$ 230,900	\$ 1,517,100	13.2%	\$ 5,276,400	28.8%
01/01/2011	\$ 2,501,800	\$ 645,700	\$ 1,856,100	25.8%	\$ 6,307,400	29.4%
07/01/2011	\$ 2,657,000	\$ 661,400	\$ 1,995,600	24.9%	\$ 6,226,000	32.1%
07/01/2013	\$ 2,960,600	\$ 1,079,900	\$ 1,880,700	36.5%	\$ 6,409,000	29.3%
07/01/2015	\$ 6,755,593	\$ 1,579,982	\$ 5,175,611	23.4%	\$ 6,360,511	81.4%

*Retiree Health Plan funding began in 2007. Valuations are required once every two years. The valuation date changed to July 1 in compliance with GASB Statement No. 57.

SUPPLEMENTARY INFORMATION

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

SUPPLEMENTARY INFORMATION

December 31, 2016

CONSOLIDATING STATEMENT OF NET POSITION

As of December 31, 2016

	Electric Operations	Water Operations	Eliminations	Totals
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Funds				
Operating	\$ 5,894,981	\$ 1,957,149	\$ -	\$ 7,852,130
Designated	8,207,261	2,552,277	-	10,759,538
Restricted	1,317,925	2,975,360	-	4,293,285
Total Funds	15,420,167	7,484,786	-	22,904,953
Accounts receivable, net	1,134,576	685,597	-	1,820,173
Unbilled revenues	2,090,179	821,022	-	2,911,201
Accrued interest receivable	8,518	56,526	-	65,044
Materials and supplies	478,997	177,984	-	656,981
Prepaid expenses	259,632	199,632	-	459,264
Other	45,985	50,380	-	96,365
Total Current Assets	19,438,054	9,475,927	-	28,913,981
NON-CURRENT ASSETS				
Other Non-Current Assets				
Restricted funds	-	1,876,032	-	1,876,032
Special assessments receivable	-	3,692,876	-	3,692,876
Other	925,520	-	-	925,520
Total Other Non-Current Assets	925,520	5,568,908	-	6,494,428
DEFERRED OUTFLOWS OF RESOURCES				
Pension	2,403,030	1,602,020	-	4,005,050
Unamortized loss on refunding	-	609,580	-	609,580
Unamortized redemption premium	149,934	-	-	149,934
Total deferred outflows of resources	2,552,964	2,211,600	-	4,764,564
CAPITAL ASSETS				
Utility plant	68,996,114	113,272,679	-	182,268,793
Accumulated depreciation	(23,555,362)	(39,817,376)	-	(63,372,738)
Construction work in progress	2,219,434	2,486,842	-	4,706,276
Total capital assets	47,660,186	75,942,145	-	123,602,331
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 \$ 70,576,724	 \$ 93,198,580	 \$ -	 \$ 163,775,304

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

SUPPLEMENTARY INFORMATION

December 31, 2016

	<u>Electric Operations</u>	<u>Water Operations</u>	<u>Eliminations</u>	<u>Totals</u>
NET POSITION AND LIABILITIES				
CURRENT LIABILITIES				
Other liabilities				
Accounts payable	\$ 2,464,625	\$ 41,889	\$ -	\$ 2,506,514
Customer deposits	382,405	85,763	-	468,168
Other	644,779	273,798	-	918,577
Total other liabilities	<u>3,491,809</u>	<u>401,450</u>	-	<u>3,893,259</u>
Current liabilities payable from restricted assets:				
Current portion of long-term debt	819,191	2,386,852	-	3,206,043
Accrued interest payable	1,570	161,589	-	163,159
Total Current Liabilities Payable from Restricted Assets	<u>820,761</u>	<u>2,548,441</u>	-	<u>3,369,202</u>
Total Current Liabilities	<u>4,312,570</u>	<u>2,949,891</u>	-	<u>7,262,461</u>
NON-CURRENT LIABILITIES				
Long-term debt, net of discounts and premiums	4,340,000	23,244,323	-	27,584,323
Net pension liability	6,150,197	4,100,132	-	10,250,329
OPEB liability	431,530	287,687	-	719,217
Installment loans	58,403	-	-	58,403
Unearned revenues	2,587,458	486,049	-	3,073,507
Total non-current liabilities	<u>13,567,588</u>	<u>28,118,191</u>	-	<u>41,685,779</u>
Total Liabilities	<u>17,880,158</u>	<u>31,068,082</u>	-	<u>48,948,240</u>
DEFERRED INFLOWS OF RESOURCES				
Pension	958,276	638,850	-	1,597,126
Total deferred inflows of resources	<u>958,276</u>	<u>638,850</u>	-	<u>1,597,126</u>
NET POSITION				
Net investment in capital assets	42,500,995	50,920,550	-	93,421,545
Restricted for debt service	1,316,355	4,695,114	-	6,011,469
Unrestricted	7,920,940	5,875,984	-	13,796,924
Total Net Position	<u>51,738,290</u>	<u>61,491,648</u>	-	<u>113,229,938</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 70,576,724</u>	<u>\$ 93,198,580</u>	<u>\$ -</u>	<u>\$ 163,775,304</u>

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

SUPPLEMENTARY INFORMATION

December 31, 2016

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2016

	Electric Operations	Water Operations	Eliminations	Totals
OPERATING REVENUES				
Sales to customers	\$ 21,713,614	\$ 11,312,973	\$ -	\$ 33,026,587
Interdepartmental sales	1,138,637	2,224	(1,140,861)	-
Standby fees	22,190	138,480	-	160,670
Cap and trade proceeds	1,172,306	-	-	1,172,306
Other	1,024,468	608,473	(388,795)	1,244,146
Total Operating Revenues	<u>25,071,215</u>	<u>12,062,150</u>	<u>(1,529,656)</u>	<u>35,603,709</u>
OPERATING EXPENSES				
Purchased power	11,511,308	-	-	11,511,308
Operations and maintenance	3,607,347	4,484,787	(1,140,861)	6,951,273
Consumer services	1,474,241	656,181	-	2,130,422
Administration and general	2,466,085	2,254,537	(388,795)	4,331,827
Pension expense	732,355	488,236	-	1,220,591
OPEB expense	431,531	287,687	-	719,218
Depreciation	2,576,192	3,660,841	-	6,237,033
Total Operating Expenses	<u>22,799,059</u>	<u>11,832,269</u>	<u>(1,529,656)</u>	<u>33,101,672</u>
Operating Income	<u>2,272,156</u>	<u>229,881</u>	<u>-</u>	<u>2,502,037</u>
NON-OPERATING REVENUE (EXPENSES)				
Special tax revenue	-	-	-	-
Investment income	101,039	267,722	-	368,761
Interest expense	(2,856)	(895,137)	-	(897,993)
Amortization	(6,815)	(5,784)	-	(12,599)
Other non-operating revenues	-	-	-	-
Other non-operating expenses	(78,838)	(66,240)	-	(145,078)
Gain (loss) on disposition of assets	(454)	(1,060)	-	(1,514)
Total Non-Operating Expenses	<u>12,076</u>	<u>(700,499)</u>	<u>-</u>	<u>(688,423)</u>
Income Before Contributions	<u>2,284,232</u>	<u>(470,618)</u>	<u>-</u>	<u>1,813,614</u>
CAPITAL & OTHER CONTRIBUTIONS, net				
Capital Contributions	809,436	889,674	-	1,699,110
Intercompany Debt Service - Pension Sidefund	302,004	(302,004)	-	-
Total Capital and Other Contributions, net	<u>1,111,440</u>	<u>587,670</u>	<u>-</u>	<u>1,699,110</u>
CHANGE IN NET POSITION	<u>3,395,672</u>	<u>117,052</u>	<u>-</u>	<u>3,512,724</u>
NET POSITION - Beginning of Year	<u>48,342,618</u>	<u>61,374,596</u>	<u>-</u>	<u>109,717,214</u>
NET POSITION - END OF YEAR	<u>\$ 51,738,290</u>	<u>\$ 61,491,648</u>	<u>\$ -</u>	<u>\$ 113,229,938</u>

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

SUPPLEMENTARY INFORMATION

December 31, 2016

CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	Electric Operations	Water Operations	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from customers	\$ 25,263,014	\$ 11,444,420	\$ (1,529,656)	\$ 35,177,778
Paid to suppliers for goods and services	(15,624,015)	(5,381,779)	1,529,656	(19,476,138)
Paid to employees for services	(4,089,819)	(2,342,953)	-	(6,432,772)
Net Cash Flows from Operating Activities	5,549,180	3,719,688	-	9,268,868
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Debt issuance costs	78,838	-	-	78,838
Proceeds from refunding	5,353,413	-	-	5,353,413
Principal payments on long-term debt	(6,102,838)	-	-	(6,102,838)
Interest payments on long-term debt	(250,584)	-	-	(250,584)
Net Cash Flows from Noncapital Financing Activities	(921,171)	-	-	(921,171)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital expenditures for utility plant	(3,086,341)	(4,334,811)	-	(7,421,152)
Cost of disposal of property net of salvage	(76,810)	(1,621)	-	(78,431)
Capital contributions, connection and facility fees	692,358	664,373	-	1,356,731
Special assessments receipts	-	670,914	-	670,914
Special tax receipts	-	-	-	-
Debt issuance costs	-	66,240	-	66,240
Proceeds from refunding	-	3,128,760	-	3,128,760
Principal payments on long-term debt	(9,745)	(5,487,414)	-	(5,497,159)
Interest payments on long-term debt	246,955	(895,743)	-	(648,788)
Cash Flows From Capital and Related Financing Activities	(2,233,583)	(6,189,302)	-	(8,422,885)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income received	114,807	292,186	-	406,993
Cash Flows from Investing Activities	114,807	292,186	-	406,993
Net Change in Cash and Cash Equivalents	2,509,233	(2,177,428)	-	331,805
CASH AND CASH EQUIVALENTS – Beginning of Year	12,930,593	9,663,002	-	22,593,595
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 15,439,826	\$ 7,485,574	\$ -	\$ 22,925,400

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

During 2016: \$118,682 and \$70,494 of capital assets were contributed to the electric and water utilities, respectively, by customers and developers. \$759,217 and \$921,498 of prior period unearned revenues were recognized by the electric and water utilities, respectively. \$1,299,588 and \$328,788 of prior period unearned revenues were recognized by the component units, Gray's Crossing and Old Greenwood, respectively.

TRUCKEE DONNER PUBLIC UTILITY DISTRICT

SUPPLEMENTARY INFORMATION

December 31, 2016

For the Year Ended December 31, 2016

	Electric Operations	Water Operations	Eliminations	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH				
FLOWS FROM OPERATING ACTIVITIES				
Operating income	\$ 2,272,156	\$ 229,881	\$ -	\$ 2,502,037
Noncash items included in operating income				
Depreciation and amortization	2,576,192	3,660,841	-	6,237,033
Depreciation charged to other accounts	123,580	140,788	-	264,368
Intercompany Transfer	302,004	(302,004)	-	-
Pension expense - GASB 68	732,354	448,236	-	1,180,590
Deferred Pension Contributions - GASB 68	(660,747)	(400,498)	-	(1,061,245)
OPEB	431,531	287,687	-	719,218
Accounts receivable and unbilled revenues	(70,698)	(254,822)	-	(325,520)
Materials and supplies	10,390	(27,929)	-	(17,539)
Prepaid expenses and other current assets	(11,181)	(11,181)	-	(22,362)
Accounts payable	(471,090)	(5,498)	-	(476,588)
Customer deposits	39,332	5,336	-	44,668
Other current liabilities	275,357	(51,149)	-	224,208
	<u>\$ 5,549,180</u>	<u>\$ 3,719,688</u>	<u>\$ -</u>	<u>\$ 9,268,868</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES				
	<u>\$ 5,549,180</u>	<u>\$ 3,719,688</u>	<u>\$ -</u>	<u>\$ 9,268,868</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
TO THE BALANCE SHEET				
Operating	\$ 5,894,981	\$ 1,957,149	\$ -	\$ 7,852,130
Designated	8,207,261	2,552,277	-	10,759,538
Restricted bond funds - current	1,317,925	2,975,360	-	4,293,285
Restricted bond funds - non-current	-	1,876,032	-	1,876,032
Total Cash and Investments	15,420,167	9,360,818	-	24,780,985
Less: Long-term investments	-	(1,698,880)	-	(1,698,880)
Mark to market adjustment	19,659	(176,364)	-	(156,705)
	<u>\$ 15,439,826</u>	<u>\$ 7,485,574</u>	<u>\$ -</u>	<u>\$ 22,925,400</u>
TOTAL CASH AND CASH EQUIVALENTS				
	<u>\$ 15,439,826</u>	<u>\$ 7,485,574</u>	<u>\$ -</u>	<u>\$ 22,925,400</u>