# TRI-DAM PROJECT

AUDITED FINANCIAL STATEMENTS

December 31, 2015

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December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tri-Dam Project
Strawberry, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of Tri-Dam Project (the Project), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Project as of December 31, 2015 and 2014 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

To the Board of Directors
Tri-Dam Project

**Emphasis-of-Matter**

As discussed in Note J to the basic financial statements, the Project adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the year ended December 31, 2015. Due to the implementation of these Statements, the Project recognized deferred outflows of resources and a pension liability for its cost-sharing pension plans as of January 1, 2014. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2016 on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance.

Richardson & Company, LLP

May 17, 2016

# MANAGEMENT’S DISCUSSION
AND ANALYSIS

TRI-DAM PROJECT
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of the Tri-Dam Project's (Project) financial position as of December 31, 2015 and 2014, and the Project's financial performance for the years then ended. Condensed financial information for 2013 is also presented for comparison purposes. We encourage readers to consider the information presented here in conjunction with the more comprehensive financial statements, the notes to the financial statements, and the other additional information provided.

## OPERATIONAL AND FINANCIAL HIGHLIGHTS

- The California drought again negatively impacted the Project, leading to the fourth consecutive year of curtailed energy production at the Project's hydroelectric facilities.
- Total net position, the level by which total assets exceed total liabilities, declined by $4.0 million, from $80.2 million at December 31, 2014 to $76.1 million at December 31, 2015. Although results of operations remained positive, with net revenues of $4.7 million, distributions to the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts) exceeded net revenues. Distributions totaled $8.8 million for the year, a decline of $565,000 from the prior year.
- Operating revenues declined slightly during 2015, totaling $15.3 million during the year, as compared to $15.5 million during 2014.
- Operating expenses increased considerably during 2015, totaling $9.6 million versus $7.1 million during 2014. The increase was primarily due to various large maintenance projects completed during the year along with the implementation of GASB 68, which resulted in an additional non-cash charge to pension expense of $1.3 million.
- Nonoperating revenues decreased from $748,000 during 2014 to $426,000 during 2015. The decrease was primarily due to a large refund received in 2014 from the California Independent System Operator (CAISO) and Pacific Gas and Electric Company (PG&E) related to interconnection costs and network upgrades incurred by the Project for the Tulloch third generating unit completed in 2012.
- Nonoperating expenses increased $116,000 from $1.3 million during 2014 to $1.4 million during 2015. The increase was primarily attributable to costs incurred for river habitat studies and legal fees, both of which were primarily incurred to defend the Member Districts' water rights on the Stanislaus River.

## FINANCIAL ANALYSIS OF THE PROJECT

This section is intended to serve as an introduction to the Project's Basic Financial Statements, Other Supplementary Information, and Compliance Report. The financial data contained herein reflects the audited 2015 and 2014 financial results.

The Project's resources are allocated and accounted for in the financial statements as an enterprise fund type of the proprietary fund group, and the Project maintains its financial records and reporting in accordance with all applicable Government Accounting Standards Board (GASB) pronouncements. The Project is therefore subject to GASB 68, *Accounting and Financial Reporting for Pensions*, and has implemented that accounting statement for the years ended December 31, 2015 and 2014. As a result, certain accounts have been restated for the years ended December 31, 2014 and 2013, and this discussion and analysis reflects those restatements, as applicable. The valuations necessary to implement GASB 68 were performed by the California Public Employees Retirement System (CalPERS).

**Basic Financial Statements**
This section includes *the Balance Sheets*; *the Statements of Revenues, Expenses, and Changes in Net Position*; and *the Statements of Cash Flows*.

The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Position are maintained under the accrual basis of accounting, which means that revenues and expenses are recorded when incurred, regardless of when cash payments are received or paid. The cash flow statements are not prepared using the accrual basis of accounting, but instead detail the actual receipt and payment of cash during the year.

The Balance Sheets detail the Project's assets, deferred outflows, liabilities, deferred inflows and net position as of a specific point in time. Increases or decreases in net position generally indicate improvement or deterioration in financial strength when analyzed over a period of years. However, increases and decreases in net position for Tri-Dam Project should always be analyzed in combination with the level and trend of distributions to the Member Districts.

The Statements of Revenues, Expenses, and Changes in Net Position provide information relating to the revenues, expenses, and subsequent changes in net position for the fiscal year reported. The change in net position is similar to net income of a private company. Revenues and expenses are further broken down between operating revenues and expenses, and nonoperating revenues and expenses. Revenues and expenses that are incurred as a result of power generation activities are generally classified as operating revenues and expenses, while all other revenues and expenses unrelated to power generation are classified as nonoperating.

The Statements of Cash Flows break down the sources and uses of cash by activity, providing the detail of changes in the Project's cash and cash equivalents during the year. Cash flow sources and uses are categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

**Notes to the Basic Financial Statements**
The *Notes to the Basic Financial Statements* are an equally important section of the financial statements as they provide a narrative on the trends, outlook and related accounting methodology supporting the numbers.

**Other Supplementary Information**
The *Other Supplementary Information* section provides additional detail and expense breakdown by each of the Project's facilities and administrative activities.

**Compliance Report**
The *Compliance Report* discusses the Project's internal controls over financial reporting and compliance with various laws, regulations and reporting standards.

## BALANCE SHEETS

The following table illustrates the Project's condensed balance sheets for the years ended December 31, 2015, 2014 and 2013.

| | Condensed Balance Sheets | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 (As Restated) | Increase (Decrease) | 2013 (As Restated) | Increase (Decrease) |
| **Assets and Deferred Outflows** | | | | | |
| Current Assets | $ 17,577,108 | $ 19,344,690 | $ (1,767,582) | $ 19,792,854 | $ (448,164) |
| Capital Assets, Net | 64,830,835 | 65,609,741 | (778,906) | 66,424,267 | (814,526) |
| Deferred Outflows | 280,212 | 237,494 | 42,718 | 223,359 | 14,135 |
| Total Assets & Deferred Outflows | $ 82,688,155 | $ 85,191,925 | $ (2,503,770) | $ 86,440,480 | $ (1,248,555) |
| **Liabilities** | | | | | |
| Current Liabilities | $ 846,020 | $ 718,754 | $ 127,266 | $ 1,066,676 | $ (347,922) |
| Noncurrent Liabilities | 4,244,947 | 3,256,485 | 988,462 | 4,305,773 | (1,049,288) |
| Deferred Inflows | 1,448,310 | 1,047,486 | 400,824 | | 1,047,486 |
| Total Liabilities & Deferred Inflows | 6,539,277 | 5,022,725 | 1,516,552 | 5,372,449 | (349,724) |
| **Net Position** | | | | | |
| Investment in Capital Assets | 64,830,835 | 65,609,741 | (778,906) | 66,424,267 | (814,526) |
| Unrestricted | 11,318,043 | 14,559,459 | (3,241,416) | 14,643,764 | (84,305) |
| Total Net Position | 76,148,878 | 80,169,200 | (4,020,322) | 81,068,031 | (898,831) |
| Total Liabilities, Deferred Inflows & Net Position | $ 82,688,155 | $ 85,191,925 | $ (2,503,770) | $ 86,440,480 | $ (1,248,555) |

**Assets and Deferred Outflows of Resources**
**2015 compared to 2014**
Current assets declined by $1.8 million during 2015, primarily due to a decrease of $1.3 million in cash equivalents and investments, along with an $842,000 decrease in the power generation receivable from Silicon Valley Power, partially offset by an increase in amounts due from the Project's separate but related entity, Tri-Dam Power Authority (Authority). The decline in cash and investments was primarily attributable to the purchase of land, capital asset acquisitions, and several large maintenance projects, including painting the spill gates at the Beardsley and Donnells dams. The decline in the generation receivable was primarily a timing difference resulting from scheduled annual maintenance being performed during December 2015 at the Donnells plant. The Donnells power plant is the Project's largest, and annual maintenance is typically performed earlier in the year.

Amounts due from Tri-Dam Power Authority represent equipment rental and accrued labor costs for employees on loan from Tri-Dam Project. Amounts due from the Authority increased $294,000 from the prior year as management withheld reimbursements to Project in order to preserve cash. Management has also elected to re-classify certain amounts owed to Project, both current and noncurrent, into one account receivable from Authority. It is anticipated that amounts due from Tri-Dam Power Authority will be paid in full during 2016 as generation revenue improves and the Authority pays off the final outstanding bonds in November.

Other accounts receivable due the Project in the normal course of business included $331,000 due from PG&E for headwater benefits created by the Project's hydroelectric facilities on the middle fork of the Stanislaus River. Headwater benefits are adjusted for inflation and were essentially unchanged from the prior year.

Noncurrent assets represent the Project's capital assets, which decreased $779,000, net of accumulated depreciation and amortization. Capital assets also include the $7.0 million Federal Energy Regulatory Commission (FERC) license, an intangible asset, net of accumulated amortization of $1.2 million. The legal and administrative costs initially incurred to renew the Project's license from the FERC totaled $3.3 million, and are being amortized on a straight line basis by $83,100 a year over an initial period of 40 years. Intangible capital assets also include the net cost of the Beardsley Reservoir recreation improvements completed in 2014, totaling $4.9 million. The improvements were paid for by the Project, but remain the property of the United States Department of Agriculture, Forest Service. Upon completion, the Forest Service resumed responsibility for the ongoing operation and maintenance of the improvements. Also see the capital assets discussion later in this section.

Deferred outflows of resources represent various adjustments related to the Project's net pension liability. These adjustments are primarily due to pension contributions made by the Project subsequent to the measurement date of June 30, 2015 (valuation date of June 30, 2014), and increased $43,000 from the prior year, as restated. Similar to a prepaid asset, these deferred outflows will mainly be recognized as a reduction to the net pension liability for the year ended December 31, 2016.

**2014 compared to 2013**
Current assets declined by $448,000 during 2014, primarily due to lower power generation receivables and cash distributions to Member Districts, partially offset by an increase in amounts due to the Project from Tri-Dam Power Authority. Current assets included the Project's cash equivalents and investments, which were comprised of approximately $7.7 million in deposits with financial institutions and $9.0 million in investments. Nearly all of the Project's investments continued to be managed by Highmark Capital Management, while the remainder was held in money market funds and the State of California Local Agency Investment Fund.

Current assets also included various accounts receivable due the Project. The primary receivable at December 31, 2014, was $1.3 million due from Silicon Valley Power for wholesale electricity sales. In addition, the Project was due a total of $519,000 from Tri-Dam Power Authority.

Noncurrent assets represented the Project's capital assets, which decreased by $815,000, net of accumulated depreciation and amortization.

Deferred outflows of resources, primarily pension contributions made by the Project subsequent to the measurement date of June 30, 2014, totaled $237,000, an increase of $14,000 from the prior year.

**Liabilities and Deferred Inflows of Resources**
**2015 compared to 2014**
The project ended 2015 with total liabilities and deferred inflows of $6.5 million, an increase of $1.5 million from year-end 2014. Current liabilities totaled $846,000 at year-end 2015, an increase of $127,000 from the prior year. The increase in current liabilities was primarily attributable to an increase in accounts payable and other accrued expenses incurred in the normal course of business, partially offset by a decline in accrued salaries and benefits, which was essentially a timing difference. Other current liabilities as of December 31, 2015 included the estimated current portion of accrued compensated absences (vacation and sick leave) totaling $222,000, and $90,000 due to the FERC for headwater benefits related to New Melones Dam, upstream of the Project's Tulloch Dam.

Noncurrent liabilities totaled $4.2 million, and primarily consisted of the Project's net pension liability of $3.9 million, which increased $961,000 from the end of 2014. The net pension liability has been shown on the face of the Project's balance sheets for the first time for the years ended December 31, 2015 and 2014, as required by GASB 68. The net pension liability is calculated by CalPERS, and is subject to a significant level of year-to-year volatility. For the years ended December 31, 2014 and 2013, the Project's net pension liability totaled $3.0 million and $4.0 million, respectively.

Other noncurrent liabilities consisted of the estimated noncurrent portion of compensated absences, which totaled $189,000, and other postemployment benefits of $137,000. Other postemployment benefits represent the actuarially determined present value cost of providing current and future health benefits for retirees.

Deferred inflows of resources represent various adjustments related to the Project's net pension liability. These adjustments are primarily due to changes in CalPERS' methodologies and assumptions in calculating the net pension liability, including differences between projected and actual earnings on pension plan investments, and changes in Tri-Dam's proportionate share of the entire pension liability of all California government agencies participating in the same risk pool. For 2015, deferred inflows totaled $1.4 million, an increase of $401,000 from the prior year.

**2014 compared to 2013**
The Project ended 2014 with total liabilities and deferred inflows of $5.0 million, a decline of $350,000 from year-end 2013. Current liabilities totaled $719,000 at year-end 2014, a decline of $348,000 from the prior year. The decline in current liabilities was primarily a result of the completion of the Beardsley Recreation improvements, the remaining estimated cost of which was represented as a current liability on the Project's balance sheet at December 31, 2013. Other current liabilities as of December 31, 2014 included accounts payable incurred in the normal course of business of $147,000, accrued salaries and benefits totaling $167,000, and the estimated current portion of accrued compensated absences (vacation and sick leave) which totaled $245,000.

Noncurrent liabilities totaled $3.3 million, and primarily consisted of the Project's net pension liability of $3.0 million, which decreased $1.1 million from the end of 2013. Other noncurrent liabilities consisted of the estimated noncurrent portion of compensated absences, which totaled $197,000, and other postemployment benefits of $102,000.

Deferred inflows of resources related to the Project's net pension liability totaled $1.0 million as calculated by CalPERS.

**Net Position**
**2015 compared to 2014**
Net Position at the end of 2015 totaled $76.1 million, a decline of $4.0 million from the prior year. Net position at the end of 2015 was broken down between investment in capital assets of $64.8 million, a decrease of $779,000, and unrestricted net position of $11.3 million, a decrease of $3.2 million.

The net investment in capital assets represents the Project's reservoirs, dams, power plants and other infrastructure and equipment, the cost of which is recognized over the useful lives of these assets through depreciation expense (except land and construction-in-progress). Capital assets provide the Project with the ability to continue operations and do not represent liquid assets that can easily be used to pay future obligations. The net investment in capital assets also includes the unamortized costs of the Project's FERC license, which also provides the Project with the ability to continue operations.

Unrestricted net position essentially represents the difference between the total net position and net position invested in capital assets. Unrestricted net position includes the Project's liquid assets.

Discretionary cash distributions to the Member Districts exceeded net income (change in net position) for the fifth year in a row. The Project is not a private company, and as such is not operated to only make a profit. Nonetheless, the Project is still managed in a manner that reasonably maximizes revenues and minimizes expenses in order to both maintain and improve capital facilities, and maximize distributions to the Member Districts. The Member Districts, in turn, rely on cash distributions from the Project to help fulfill their obligations to recover the cost of providing services to their constituents and maintain and improve their capital facilities.

The Project does not have any reserves of net position that are mandated by external sources. However, the Project's Board of Directors has imposed minimum reserve balances which can be changed at the Board's discretion. These limits are in place to ensure proper reserve balances exist in the event of a system failure or to fund future projects.

**2014 compared to 2013**

Net position at the end of 2014 totaled $80.2 million, a decline of $899,000 from the prior year. Net position at the end of 2014 was broken down between investment in capital assets of $65.6 million, a decrease of $815,000 during the year, and unrestricted net position of $14.6 million, a decrease of $84,000 during the year.

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

The following table illustrates the Project's condensed statements of revenues, expenses and changes in net position for 2015, 2014 and 2013.

| | Condensed Statement of Revenues, Expenses and Changes in Net Position | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 (As Restated) | Increase (Decrease) | 2013 (As Restated) | Increase (Decrease) |
| Operating Revenues | $ 15,302,362 | $ 15,460,554 | $ (158,192) | $ 22,500,866 | $ (7,040,312) |
| Operating Expenses | 9,569,222 | 7,081,774 | 2,487,448 | 10,162,899 | (3,081,125) |
| Net Operating Revenue (Expense) | 5,733,140 | 8,378,780 | (2,645,640) | 12,337,967 | (3,959,187) |
| Nonoperating Revenues | 425,940 | 747,674 | (321,734) | 1,897,179 | (1,149,505) |
| Nonoperating Expenses | 1,420,402 | 1,304,248 | 116,154 | 1,422,737 | (118,489) |
| Net Nonoperating Revenue (Expense) | (994,462) | (556,574) | (437,888) | 474,442 | (1,031,016) |
| Change in Net Position | 4,738,678 | 7,822,206 | (3,083,528) | 12,812,409 | (4,990,203) |
| Net Position, Beginning of Year as previously reported | 80,169,200 | 81,068,031 | (898,831) | 85,440,195 | (4,372,164) |
| Restatement | | | | (4,020,573) | 4,020,573 |
| Net Position, Beginning of Year as Restated | 80,169,200 | 81,068,031 | (898,831) | 81,419,622 | (351,591) |
| Add: Contribution of land by Member Districts | | 602,963 | (602,963) | | 602,963 |
| Less: Distributions to Member Districts | (8,759,000) | (9,324,000) | 565,000 | (13,164,000) | 3,840,000 |
| Net Position, End of Year | $ 76,148,878 | $ 80,169,200 | $ (4,020,322) | $ 81,068,031 | $ (898,831) |

*Note: The January 1, 2013 balances above are not reported in accordance with GASB Statement No. 68 because CalPERS did not re-compute the pension liability in the June 30, 2012 pension plan valuation using methods and assumptions that comply with GASB Statement No. 68. The restatement as of January 1, 2013 represents the contributions made from July 1, 2012 to December 31, 2012, less the pension liability computed in the June 30, 2012 valuation using methods and assumptions that do not comply with GASB Statement No. 68.*

**Operating Revenues**
**2015 compared to 2014**
Below average rain and snowfall again negatively impacted power generation during 2015, resulting in slightly lower operating revenues of $15.3 million, a decline of $158,000 from the prior year. For 2015, generation totaled approximately 230,000 MWh, as compared to 2014 generation of approximately 240,000 MWh, and long-term average generation of approximately 450,000 MWh. Operating revenue also included headwater benefit fees from PG&E, which totaled $331,000, unchanged from the prior year.

**2014 compared to 2013**
Operating revenues declined considerably during 2014, as the impact of the continuing drought significantly curtailed power generation. For 2014, operating revenues totaled $15.5 million, a decline of $7.0 million from 2013 operating revenues of $22.5 million. Operating revenues almost entirely consisted of power generation revenue. For the fourth year in a row, rain and snowfall totals were well-below average, resulting in below average generation of approximately 240,000 MWh, as compared to long-term average generation of approximately 450,000 MWh.

Operating revenue also included headwater benefit fees from PG&E, which totaled $331,000 in 2014. Headwater benefit fees are adjusted for inflation, and increased by $4,000 from the prior year.

**Nonoperating Revenues**
**2015 compared to 2014**
Nonoperating revenues are generally realized from ancillary types of activities unrelated to power generation, and include reimbursements for operation and maintenance activities performed by the Project on behalf of other governmental entities, water sales, income from rental of equipment and facilities owned by the Project, and investment income. For 2015, nonoperating revenue declined $322,000 to $426,000, primarily as a result of back rent received from a communication site tenant and one-time refunds received from the CAISO and PG&E classified as other nonoperating revenue during 2014.

Reimbursements relate to the operation and maintenance activities performed by Tri-Dam on behalf of Stockton East Water District (SEWD) and the United States Bureau of Reclamation (USBR). Reimbursements from SEWD represent one-third of the total operating and maintenance costs of Goodwin Dam, consistent with SEWD's one-third ownership of that facility with the two Member Districts. Reimbursements from the USBR represent costs incurred by Tri-Dam for managing various operations below New Melones Dam, and are calculated based upon a set number of hours and prevailing Tri-Dam wage and overhead rates. During 2015, combined reimbursements for these activities totaled $171,000, a decrease of $13,000 from 2014.

Water sales were unchanged from 2014, totaling $107,000. Water sales are based upon usage and a predetermined schedule, adjusted annually for inflation.

Income from the rental of equipment and facilities owned by Tri-Dam consist of 1) a monthly set fee charged to Tri-Dam Power Authority, 2) communication site rental income from a variety of other governmental entities and private communications companies, and 3) rental of housing owned by the Project. During 2015, rental income totaled $80,000, down from $134,000 in 2014. The decrease was attributable to the collection of several years of delinquent communication site rent during 2014.

Investment income declined slightly as the balance of investable funds decreased.

**2014 compared to 2013**
Nonoperating revenues declined substantially during 2014 due to grant revenue earned during the prior year. Specifically, 2013 nonoperating revenue was inflated by $1.5 million due to a grant earned for the construction of the Beardsley Reservoir boat launch and corresponding award from the California Department of Boating and Waterways. Excluding this grant revenue, 2014 nonoperating revenue actually increased $323,000 versus 2013, primarily as a result of the previously mentioned refunds from the CAISO and PG&E, along with the receipt of delinquent communication site rental income.

**Operating Expenses**
**2015 compared to 2014**
Operating expenses increased from $7.1 million during 2014 to $9.6 million during 2015. Operating expenses increased considerably as the implementation of GASB 68 caused an additional non-cash pension expense of $1.3 million to be recorded. Pension expense is reflected in the statement of revenues, expenses and changes in net position within operations, maintenance, and general and administrative expenses in proportion to the direct labor costs of each of those functions. Wage and benefit costs, excluding additional pension expense related to GASB 68, declined by $196,000 primarily as a result of several vacancies throughout the year.

Non-labor related operating costs increased $1.3 million from the prior year, primarily due to repainting the spill gates at the Beardsley and Donnells dams.

Depreciation and amortization expense totaled $1.9 million, an increase of $6,000 during 2015.

**2014 compared to 2013**
Operating expenses decreased $3.1 million versus the prior year, mainly due to the completion of the Beardsley boat launch in 2013. In addition, the expiration of the Project's prior power sale agreement with Shell Energy North America resulted in the elimination $1.0 million in power marketing fees incurred during 2013. Finally, 2014 operating costs also declined due to the cost of repainting the spill gates at Tulloch Dam in 2013.

Depreciation and amortization expense totaled $1.9 million, an increase of $28,000 from the prior year.

Refer to the Other Supplementary Information section for additional detail of operating expenses by facility, including a comparison of 2015 and 2014 wages, benefits, and other expenses by activity and location.

**Nonoperating Expenses**
**2015 compared to 2014**
Nonoperating expenses represent the operation and maintenance costs of Goodwin Dam, and various ongoing studies (and the related legal costs) associated with monitoring the Stanislaus River fish habitat and defending the Member Districts' water rights. Nonoperating expenses also include any loss on the disposal of capital assets. Nonoperating expenses increased $116,000 during 2015, totaling $1.4 million. A $31,000 reduction in costs associated with the operation and maintenance of Goodwin Dam was more than offset by a significant increase in legal costs incurred in negotiating and defending flow requirements with various state and federal agencies having jurisdiction and operations on the Stanislaus River. For 2015, river habitat and related legal costs totaled $1.1 million, an increase of $241,000 from the prior year. The Project expects to incur significant nonoperating costs for the foreseeable future.

**2014 compared to 2013**
For 2014, nonoperating expenses declined $118,000, to $1.3 million, primarily as a result of lower river habitat monitoring and related legal expenses. Operation and maintenance costs related to Goodwin Dam increased $33,000 to $303,000, as additional deferred maintenance activities were performed in response to the dry water year.

## CAPITAL ASSETS

The following table illustrates the Project's capital assets as of December 31, 2015 and 2014.

| | 2015 | 2014 | Increase (Decrease) |
|---|---|---|---|
| Land | $ 1,503,600 | $ 799,276 | $ 704,324 |
| Construction in progress | 23,798 | 169,645 | (145,847) |
| Intangible asset - FERC license | 8,213,938 | 8,213,938 | - |
| Dams and power plants | 88,675,065 | 88,675,065 | - |
| Power plant equipment | 5,709,320 | 5,235,714 | 473,606 |
| Telemetry equipment | 2,751,866 | 2,735,628 | 16,238 |
| Buildings | 977,153 | 977,153 | - |
| Other equipment | 2,765,503 | 2,668,749 | 96,754 |
| Total Capital Assets | 110,620,243 | 109,475,168 | 1,145,075 |
| Less: accumulated depreciation | (45,789,408) | (43,865,427) | (1,923,981) |
| Net Capital Assets | $64,830,835 | $65,609,741 | $ (778,906) |

Capital assets net of accumulated depreciation decreased $779,000 to $64.8 million, from $65.6 million at the end of 2014. The decline resulted from normal depreciation of $1.7 million, and amortization of intangible capital assets of $234,000, net of a land acquisition of $704,000 and other capital asset additions of $441,000. The land purchase was made in order to fulfill an additional FERC license requirement, and will likely be developed into a day-use recreational facility at Lake Tulloch. This is the second tract of land at Lake Tulloch owned by the Project. The other significant capital asset addition was the completion of the new switchgear project at the Beardsley powerhouse totaling $474,000. The Project also purchased one new vehicle during the year. Construction-in-progress as of year-end totaled $24,000. Note C of the financial statements contains additional information regarding capital assets.

## EXPECTATIONS FOR 2016

The Project completed its second year of delivery of electricity under the power purchase and sale agreement with the City of Santa Clara, California. The agreement is for a 10-year term, and provides for a fixed contract price with scheduled annual adjustments for all electrical energy, capacity attributes and any renewable energy credits or other environmental attributes. The fixed price under the agreement for 2016 is substantially greater than current market prices for wholesale energy.

Slightly better than average rain and snowfall totals during the winter have resulted in improved generation thus far in 2016, and management expects total generation for the current year to exceed historical averages. Moreover, the fixed price structure of the power sale agreement has eliminated Tri-Dam's exposure to fluctuations in wholesale energy prices. Accordingly, expenses for 2016 have been budgeted under a normal water year scenario, with a significant level of capital improvement projects expected to be undertaken and completed during the year, several of which were previously deferred from prior years. Given the improvement in power generation revenue, management anticipates utilizing current cash flow to fund all capital projects during 2016.

The MOU with the IBEW expired on February 28, 2015, and a new agreement is currently being negotiated.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Tri-Dam Project's financial position and results of operations. Questions concerning the information provided in this report or requests for additional information should be addressed to Finance and Administrative Manager, P.O. Box 1158, Pinecrest, California 95364-0158 or rdodge@tridamproject.com.

BASIC FINANCIAL STATEMENTS

TRI-DAM PROJECT

BALANCE SHEETS

December 31, 2015 and 2014

| | 2015 | 2014 (As Restated) |
|---|---|---|
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 6,640,852 | $ 10,194,686 |
| Investments | 8,877,050 | 6,588,425 |
| Accounts receivable: | | |
| Headwater benefit fees, PG&E | 331,123 | 331,206 |
| Power generation receivable | 441,368 | 1,283,256 |
| Services receivable, Tri-Dam Power Authority | 813,310 | 519,408 |
| Other | 184,335 | 197,394 |
| Accrued interest receivable | 11,747 | 11,702 |
| Prepaid expenses and other assets | 277,323 | 218,613 |
| Total Current Assets | 17,577,108 | 19,344,690 |
| Noncurrent Assets | | |
| Capital Assets | | |
| Not depreciated | 1,527,398 | 968,921 |
| Depreciated, net | | |
| Intangible asset - FERC license, net | 7,005,958 | 7,239,490 |
| Other capital assets depreciated, net | 56,297,479 | 57,401,330 |
| Total depreciated, net | 63,303,437 | 64,640,820 |
| Total Capital Assets | 64,830,835 | 65,609,741 |
| TOTAL ASSETS | 82,407,943 | 84,954,431 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pensions | 280,212 | 237,494 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 280,212 | 237,494 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 82,688,155 | $ 85,191,925 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | $ 395,394 | $ 147,079 |
| Accrued salaries and benefits | 52,223 | 167,246 |
| Unearned revenues | 25,604 | 11,035 |
| Deposits | 60,911 | 57,911 |
| Due to the Federal Energy Regulatory Commission | 90,247 | 90,270 |
| Compensated absences, current portion | 221,641 | 245,213 |
| Total Current Liabilities | 846,020 | 718,754 |
| Noncurrent Liabilities | | |
| Compensated absences, noncurrent portion | 188,805 | 196,612 |
| Other postemployment benefits | 136,755 | 101,538 |
| Net pension liability | 3,919,387 | 2,958,335 |
| Total Noncurrent Liabilities | 4,244,947 | 3,256,485 |
| TOTAL LIABILITIES | 5,090,967 | 3,975,239 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pensions | 1,448,310 | 1,047,486 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 1,448,310 | 1,047,486 |
| NET POSITION | | |
| Investment in capital assets | 64,830,835 | 65,609,741 |
| Unrestricted | 11,318,043 | 14,559,459 |
| TOTAL NET POSITION | 76,148,878 | 80,169,200 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | $ 82,688,155 | $ 85,191,925 |

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

TRI-DAM PROJECT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2015 and 2014

| | 2015 | 2014 (As Restated) |
|---|---|---|
| Operating Revenues | | |
| Power generation revenues | $ 14,971,239 | $ 15,129,348 |
| Headwater benefit fees | 331,123 | 331,206 |
| Total Operating Revenues | 15,302,362 | 15,460,554 |
| Operating Expenses | | |
| Operations | 1,831,043 | 1,357,566 |
| Maintenance | 3,169,017 | 1,442,655 |
| General and administrative | 2,645,181 | 2,363,420 |
| Power generation marketing | | 30 |
| Depreciation and amortization | 1,923,981 | 1,918,103 |
| Total Operating Expenses | 9,569,222 | 7,081,774 |
| NET INCOME FROM OPERATIONS | 5,733,140 | 8,378,780 |
| Nonoperating Revenues (Expenses) | | |
| Reimbursements | 171,341 | 184,330 |
| Water sales | 106,953 | 107,041 |
| Rental of equipment and facilities | 79,596 | 134,407 |
| Investment earnings | 43,633 | 46,699 |
| Other nonoperating revenue | 24,417 | 275,197 |
| River habitat studies | (1,148,448) | (907,193) |
| Goodwin Dam expenses | (271,954) | (302,551) |
| (Loss) gain on disposal of capital assets | | (94,504) |
| Total Nonoperating Revenues (Expenses) | (994,462) | (556,574) |
| CHANGE IN NET POSITION | 4,738,678 | 7,822,206 |
| Net position, beginning of year as previously reported | 80,169,200 | 84,886,822 |
| Restatement | | (3,818,791) |
| Net position, beginning of year as restated | 80,169,200 | 81,068,031 |
| Add: contribution of land by Member Districts | | 602,963 |
| Less: distributions to Member Districts | (8,759,000) | (9,324,000) |
| NET POSITION, END OF YEAR | $ 76,148,878 | $ 80,169,200 |

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

# TRI-DAM PROJECT

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015 and 2014

| | 2015 | 2014 (As Restated) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers for power generation | $ 15,813,127 | $ 15,836,579 |
| Other operating receipts | 345,775 | 327,579 |
| Cash payments to suppliers for goods and services | (4,152,165) | (3,520,579) |
| Cash payments to employees for services | (2,386,423) | (2,221,801) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 9,620,314 | 10,421,778 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Cash distributions to Member Districts | (8,759,000) | (9,324,000) |
| Cash received for relicensing project grants | | 1,443,163 |
| Other net nonoperating revenues and expenses | (1,025,036) | (496,304) |
| NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES | (9,784,036) | (8,377,141) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchases of capital assets | (1,145,075) | (844,187) |
| Proceeds from disposal of capital assets | | 10,676 |
| NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES | (1,145,075) | (833,511) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investment securities | (9,635,554) | (5,023,478) |
| Proceeds from sales of investment securities | 7,349,818 | 5,911,209 |
| Interest received | 40,699 | 54,403 |
| NET CASH USED FOR INVESING ACTIVITIES | (2,245,037) | 942,134 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (3,553,834) | 2,153,260 |
| Cash and cash equivalents - beginning of year | 10,194,686 | 8,041,426 |
| CASH AND CASH EQUIVALENTS- END OF YEAR | $ 6,640,852 | $ 10,194,686 |
| Reconciliation of net income from operations to net cash provided by operating activities: | | |
| Net income from operations | $ 5,733,140 | $ 8,378,780 |
| Adjustments to reconcile net income from operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,923,981 | 1,918,103 |
| Changes in operating assets and liabilities: | | |
| FERC relicensing costs | | |
| Power generation receivable | 841,888 | 707,231 |
| Other receivables | (293,819) | (398,173) |
| Prepaid expenses and other assets | (58,710) | (58,697) |
| Deferred outflows/inflows of resources - pensions | 1,319,158 | (50,464) |
| Accounts payable | 248,315 | (150,893) |
| Accrued salaries and benefits | (115,023) | 43,766 |
| Unearned revenue | 14,569 | 62 |
| Unearned deposits | 3,000 | |
| Due to FERC | (23) | 23 |
| Compensated absences | (31,379) | 3,418 |
| Other postemployment benefits | 35,217 | 28,622 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 9,620,314 | $ 10,421,778 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES: | | |
| Change in the fair value of investments | $ 2,889 | $ (5,233) |
| Contribution of land by Member Districts | | $ 602,963 |

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

## NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Tri-Dam Project (the Project) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Project is accounted for as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. The more significant of the Project's accounting policies are described below.

Reporting Entity: The Tri-Dam Project is a joint venture of the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts) entered into under a joint cooperation agreement on January 21, 1948. The Project is an organization that is jointly governed by the Member Districts and is not organized as a separate public agency according to State regulations. The Member Districts each retain their one-half interest in the assets and liabilities of the Project. The Project consists of irrigation and power development on the Middle-Fork of the Stanislaus River, including the Donnells dam, tunnel and power plant, Beardsley dam, reservoir and power plant, Tulloch dam, reservoir and power plant, Goodwin dam and reservoir, and several ancillary facilities. The Project’s principal activities are the storage and delivery of water to the Member Districts and the hydraulic generation of electricity. These activities are carried out pursuant to the Member Districts’ water rights and the Member Districts’ licenses issued by the Federal Energy Regulatory Commission (FERC). The Member Districts have an operations agreement with the United States Bureau of Reclamation (USBR) that recognizes and confirms the Member Districts’ water rights and requires the USBR to make available to the Member Districts the first 600,000 acre feet of inflow to New Melones Reservoir each year.

Oversight responsibility, meaning the ability to appoint management and key employees, and authorize and approve contracts and financing arrangements, is exercised by a joint board of directors consisting of all five elected directors of the Oakdale Irrigation District and all five elected directors of the South San Joaquin Irrigation District. The Project issues financial statements as a separate reporting entity because of the historical joint exercise of oversight responsibility by both Member Districts.

The Tri-Dam Power Authority (the Authority), is a related entity formed in 1982, under a Joint Exercise of Powers Agreement between the two Member Districts. Although it is operated jointly with the Project, the Authority’s activity is excluded from the accompanying financial statements because it is a separate legal entity that issues separate financial statements as required by its debt agreement. While the Authority has the same joint board of directors as does the Project, the Project is not responsible for debts or other obligations of the Authority, nor is the Authority responsible for the debts or obligations of the Project.

Basis of Presentation – Fund Accounting: The Project’s resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. A fund is a self-balancing set of accounts. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position for the enterprise fund represents the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of this fund are included on the balance sheet. Net position is segregated into the net investment in capital assets, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

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

The Project uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Earned but unbilled power generation revenue is accrued as revenue.

Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the Project. Operating revenues consist primarily of power generation revenue. Nonoperating revenues and expense consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. Expenses incurred to comply with the Project's FERC license are considered operating expenses. Goodwin Dam operating and maintenance expenses are considered nonoperating as the dam has no hydroelectric operations and is maintained on behalf of the Member Districts. Expenses incurred to protect Member District water rights that are not directly related to power generation, such as fish and water quality studies not required by the Project's FERC license and related legal expenses, are reported as nonoperating expenses.

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

Budgetary Principles: The Board of Directors does not operate under any legal budgeting constraints. Budget integration is employed as a management control device. Budgets are formally adopted by the Board and take effect on each January 1.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Project considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including deposits with banks, deposits in the State of California Local Agency Investment Fund (LAIF), and money market mutual funds as well as assets of the types described above that are restricted, if any.

Accounts Receivable: Trade accounts receivable are carried at net realizable values. The Project records power generation receivables for energy deliveries to the City of Santa Clara, California, certain energy-related amounts due from Pacific Gas and Electric Company (PG&E) and other miscellaneous receivables. The Project has determined that an allowance for doubtful accounts was not necessary.

Capital Assets: Capital assets are recorded at historical cost. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation and amortization is calculated using the straight line method over the following estimated useful lives:

| Class of Capital Asset | Estimated Lives in Years |
|---|---|
| Intangible asset - FERC license | 33-40 |
| Dams and power plants | 10-99 |
| Power plant equipment | 5-99 |
| Telemetry equipment | 5-99 |
| Buildings | 10-50 |

It is the Project's policy to capitalize capital assets with a cost of $5,000 or more except for buildings and improvements where assets with a cost of $10,000 or more are capitalized. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

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

Deferred Inflows and Outflows of Resources: In addition to assets and liabilities, the balance sheet will sometimes report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until the earnings process is complete. Deferred outflows and inflows of resources include amounts deferred related to the Project's pension plans under GASB Statement No. 68 as described in Note G.

Unearned Revenues: Unearned revenues arise when resources are received in exchange transactions before the Project has a legal claim to them. Unearned revenues at December 31, 2015 and 2014 consisted of miscellaneous receipts for future services.

Compensated Absences: The Project's Memorandum of Understanding (MOU) with employees allows employees to accumulate unused vacation and sick leave, subject to policy limits. Vacation is earned at the rate of 80 to 168 hours per year, depending upon the number of years of service. Sick leave is earned at the rate of 96 hours per year. All unused vacation is paid upon separation. Upon retiring from the Project, up to 25% of unused sick leave may be paid in cash, with the remainder applied as retirement service credit with the California Public Employees' Retirement System (CalPERS). The liability for these compensated absences is recorded as a liability in the statement of net position. The current portion of this liability is estimated based on historical trends. The cost of compensated absences is recorded in the period it is incurred.

Pensions: For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Project's CalPERS plans (Plans) and 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. Plan investments are reported at fair value.

Net Position: Net position is categorized as the net investment in capital assets, restricted and unrestricted.

Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The purpose of the restriction, if any, is reported on the face of the balance sheet.

Unrestricted Net Position – This category represents net position not restricted for any project or other purpose.

Power Generation Revenues: Effective January 1, 2014, the Project entered into a power purchase and sale agreement with the City of Santa Clara, California through its municipal electric utility, Silicon Valley Power. Under the agreement, the Project agreed to sell the net electrical output and installed capacity of its power generating facilities (the Donnells Powerhouse, Tulloch Powerhouse and Beardsley Powerhouse) to the City through December 31, 2023, including electrical energy, capacity attributes and any renewable energy credits and environmental attributes of the power generating facilities. Under the agreement, the Project will receive a fixed contract price per megawatt hour (MWh) as summarized in Exhibit E of the agreement. The contract price in 2015 and 2014 was $65 and $63 per MWh, respectively. The contract price includes scheduled increases ranging from 2.6% to 4.4% each year from 2015 through 2021 when the price is fixed through the remaining term of the agreement.

The Project also receives headwater benefit payments from PG&E for operating adjustments made by the Project for the benefit of downstream facilities owned by PG&E.

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

Risk Management: The Project is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The commercial insurance is subject to a deductible. In addition, the Project has entered into an agreement with the Association of California Water Agencies Joint Powers Insurance Authority to pool their purchasing needs with other agencies for health, accident, and dental insurance. No significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended December 31, 2015 and 2014. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from the prior year.

Related Party Transactions: Significant related party transactions consist primarily of cash distributions to and contributions from the Member Districts that are charged directly to net position. The Project's Board selected Oak Valley Community Bank for its day-to-day banking activities. Two Board members who were not re-elected and were no longer on the Board as of year-end owned stock in the bank in 2015.

Reclassifications: The FERC relicensing costs as of December 31, 2014 of $7,239,490 that were reported as deferred outflows of resources were reclassified to capital assets to conform with the current year presentation. This reclassification resulted in the investment in capital assets increasing and the unrestricted net position decreasing by the same amount, but had no effect on total assets or net position at December 31, 2014.

In addition, it was determined that the portion of the Project's compensated absences and OPEB liabilities that will be reimbursed by the Authority under the expense reimbursement policy should not have been removed from the compensated absences and OPEB liabilities and reported separately by the Authority, but instead should have been included in the Services receivable, Tri-Dam Power Authority. As a result, the $36,189 and $10,878 portions of the compensated absences and OPEB liabilities, respectively, to be reimbursed by the Authority as of December 31, 2014 were added back to the compensated absences and OPEB liabilities, and the Services receivable, Tri-Dam Power Authority at December 31, 2014 was increased accordingly. This reclassification resulted in an increase in total assets and total liabilities of $47,067 at December 31, 2014, but had no effect on total net position.

New Pronouncements: In February 2015, the GASB approved Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements and will require additional disclosures about assets and liabilities measured at fair value. This Statement is effective for periods beginning after June 15, 2015.

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

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

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

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

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

NOTE B – CASH AND INVESTMENTS

Cash and investments as of December 31 are classified in the accompanying financial statements as follows:

| | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | | |
| Cash on hand | $ 300 | $ 357 |
| Deposits with financial institutions | 6,403,872 | 7,742,502 |
| Money market mutual funds | 230,970 | 2,446,133 |
| Local Agency Investment Fund (LAIF) | 5,710 | 5,694 |
| Total cash and cash equivalents | 6,640,852 | 10,194,686 |
| Investments | | |
| Investments held by Union Bank | 8,877,050 | 6,588,425 |
| Total investments | 8,877,050 | 6,588,425 |
| Total cash and investments | $ 15,517,902 | $ 16,783,111 |

Cash and investments as of December 31 consisted of the following for disclosure under GASB Statement No. 40:

| | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | | |
| Cash on hand | $ 300 | $ 357 |
| Deposits with financial institutions | 6,403,872 | 7,742,502 |
| Total cash and deposits | 6,404,172 | 7,742,859 |
| U.S. agency securities | 7,994,244 | 5,403,541 |
| Commercial paper | | |
| Medium term corporate notes | 882,806 | 1,184,884 |
| Money market mutual funds | 230,970 | 2,446,133 |
| Local Agency Investment Fund (LAIF) | 5,710 | 5,694 |
| Total investments | 9,113,730 | 9,040,252 |
| Total cash and investments | $ 15,517,902 | $ 16,783,111 |

NOTE B – CASH AND INVESTMENTS (Continued)

Investment policy: California statutes authorize governments to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The table below identifies the investment types that are authorized by the California Government Code (or the Project's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The Project's permissible investments included the following instruments:

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Of Portfolio | Maximum Investment In One Issuer |
|---|---|---|---|
| Local agency bonds | 5 years | None | None |
| U.S. Treasury obligations | 5 years | None | None |
| U.S. agency securities | 5 years | None | None |
| California local agency debt | 5 years | None | None |
| Bankers acceptances | 180 days | 40% | 30% |
| Commercial paper | 270 days | 25% | 10% |
| Negotiable certificates and time deposits | 5 years | 30% | None |
| Repurchase agreements | 1 year | 20% | None |
| Medium term corporate notes | 5 years | 30% | None |
| Money market mutual funds | N/A | 20% | 10% |
| LAIF | N/A | None | None |

The Project complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements, with the exception of the percentage limits for money market mutual funds held as of December 31, 2014. The money market mutual funds were invested in highly rated U.S. Treasury and agency securities. The Project complied with the percentage limits for money market mutual funds as of December 31, 2015. The Project will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Project manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Project's investment policy does not contain any provisions limiting interest rate risk that are more restrictive than what is specified in the California Government Code.

Information about the sensitivity of the fair values of the Project's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Project's investments by maturity at December 31, 2015:

| | Total | Remaining Maturity 12 Months or Less |
|---|---|---|
| U.S. agency securities | $ 7,994,244 | $ 7,994,244 |
| Medium term corporate notes | 882,806 | 882,806 |
| Money market mutual funds | 230,970 | 230,970 |
| LAIF | 5,710 | 5,710 |
| Total | $ 9,113,730 | $ 9,113,730 |

NOTE B – CASH AND INVESTMENTS (Continued)

Credit Risk: 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. Presented below is the minimum rating required by (where applicable) the California Government Code, the Project's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

| | Total | Minimum Legal Rating | Ratings as of Year End AAA/Aaa | AA+/Aa1 | A-1+/P-1 | A+/A1 | A2/A | Not Rated |
|---|---|---|---|---|---|---|---|---|
| U.S. agency securities | $ 7,994,244 | N/A | | $ 4,838,788 | $ 3,155,456 | | | |
| Medium term corporate notes | 882,806 | A | | | | $ 305,003 | $ 577,803 | |
| Money market mutual funds | 230,970 | AAA/Aaa | $ 230,970 | | | | | |
| LAIF | 5,710 | N/A | | | | | | $ 5,710 |
| | $ 9,113,730 | | $ 230,970 | $ 4,838,788 | $ 3,155,456 | $ 305,003 | $ 577,803 | $ 5,710 |

Concentration of Credit Risk: The investment policy of the Project limits the amount that can be invested in any one issuer to the California Government Code. The California Government Code limits the amount that may be invested in any one issuer, as disclosed in the preceding table. GASB Statement No. 40 requires disclosure of investments with one issuer exceeding 5% of total investments, with the exception of U.S. Treasury obligations, mutual funds and external investment pools. Concentrations of investments exceeding 5% of total investments were as follows at December 31, 2015:

| Issuer | Investment Type | Amount |
|---|---|---|
| Federal National Mortgage Association | U.S. Agency Securities | $ 1,089,759 |
| Federal Home Loan Bank | U.S. Agency Securities | 6,904,485 |

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Project's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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 so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At December 31, 2015 and 2014, the carrying amounts of the Project's deposits were $6,403,872 and $7,742,502 and the balances in financial institutions were $6,504,046 and $7,977,344, respectively. Of the balances in financial institutions, $250,000 at December 31, 2015 and 2014 was covered by federal depository insurance each year and the remaining amounts were secured by a pledge of securities by the financial institution, but not in the name of the Project.

NOTE B – CASH AND INVESTMENTS (Continued)

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total amount invested on December 31, 2015 by all public agencies in LAIF is $65,538,152,425, which is managed by the State Treasurer. Of that amount, 98.24% is invested in non-derivative financial products and 1.76% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the Project's investment in this pool is reported in the accompanying financial statements at amounts based upon the Project's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31 was as follows:

| | Balance at January 1, 2015 | Additions | Disposals | Transfers and Adjustments | Balance at December 31, 2015 |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ 799,276 | $ 704,324 | | | $ 1,503,600 |
| Construction in progress | 169,645 | 440,751 | | $ (586,598) | 23,798 |
| Total capital assets not being depreciated | 968,921 | 1,145,075 | | (586,598) | 1,527,398 |
| Capital assets, being depreciated: | | | | | |
| Intangible asset - FERC license | 8,213,938 | | | | 8,213,938 |
| Dams and power plants | 88,675,065 | | | | 88,675,065 |
| Power plant equipment | 5,235,714 | | | 473,606 | 5,709,320 |
| Telemetry equipment | 2,735,628 | | | 16,238 | 2,751,866 |
| Buildings | 977,153 | | | | 977,153 |
| Other equipment | 2,668,749 | | | 96,754 | 2,765,503 |
| Total capital assets being depreciated | 108,506,247 | | | 586,598 | 109,092,845 |
| Accumulated depreciation/amortization: | | | | | |
| Intangible asset - FERC license | (974,448) | (233,532) | | | (1,207,980) |
| Dams and power plants | (37,087,475) | (1,253,116) | | | (38,340,591) |
| Power plant equipment | (1,602,779) | (147,874) | | | (1,750,653) |
| Telemetry equipment | (1,435,480) | (92,378) | | | (1,527,858) |
| Buildings | (706,580) | (23,740) | | | (730,320) |
| Other equipment | (2,058,665) | (173,341) | | | (2,232,006) |
| Total accumulated depreciation/amortization | (43,865,427) | (1,923,981) | | | (45,789,408) |
| Total capital assets being depreciated, net | 64,640,820 | (1,923,981) | | 586,598 | 63,303,437 |
| Capital assets, net | $ 65,609,741 | $ (778,906) | $ - | $ - | $ 64,830,835 |

NOTE C – CAPITAL ASSETS (Continued)

| | Balance at January 1, 2014 | Additions | Disposals | Transfers and Adjustments | Balance at December 31, 2014 |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ 196,313 | $ 602,963 | | | $ 799,276 |
| Construction in progress | 119,394 | 271,374 | $ (105,180) | $ (115,943) | 169,645 |
| Total capital assets not being depreciated | 315,707 | 874,337 | (105,180) | (115,943) | 968,921 |
| Capital assets, being depreciated: | | | | | |
| Intangible asset-FERC license | 7,941,235 | 272,703 | | | 8,213,938 |
| Dams and power plants | 88,590,673 | 8,919 | | 75,473 | 88,675,065 |
| Power plant equipment | 5,235,714 | | | | 5,235,714 |
| Telemetry equipment | 2,729,348 | 6,280 | | | 2,735,628 |
| Buildings | 977,153 | | | | 977,153 |
| Other equipment | 2,637,469 | 46,518 | (55,708) | 40,470 | 2,668,749 |
| Total capital assets being depreciated | 108,111,592 | 334,420 | (55,708) | 115,943 | 108,506,247 |
| Accumulated depreciation/amortization: | | | | | |
| Intangible asset-FERC license | (747,462) | (226,986) | | | (974,448) |
| Dams and power plants | (35,835,724) | (1,251,751) | | | (37,087,475) |
| Power plant equipment | (1,441,498) | (161,281) | | | (1,602,779) |
| Telemetry equipment | (1,344,020) | (91,460) | | | (1,435,480) |
| Buildings | (682,840) | (23,740) | | | (706,580) |
| Other equipment | (1,951,488) | (162,885) | 55,708 | | (2,058,665) |
| Total accumulated depreciation/amortization | (42,003,032) | (1,918,103) | 55,708 | | (43,865,427) |
| Total capital assets being depreciated, net | 66,108,560 | (1,583,683) | | 115,943 | 64,640,820 |
| Capital assets, net | $ 66,424,267 | $ (709,346) | $ (105,180) | $ - | $ 65,609,741 |

Intangible Asset – FERC License: The Project completed the process in 2005 of applying for license renewals from the FERC for the Project's hydroelectric generating facilities. The former 50-year licenses expired on December 31, 2004 with extensions through 2005. New licenses were issued in February 2006 for all existing facilities. The licenses extend through December 31, 2045.

The relicensing process involved a substantial commitment of staff resources, formal consultation with several federal and state agencies, the acceptance of public input, numerous studies, and the public filing of documents and reports. The process was undertaken cooperatively with PG&E. PG&E has FERC-licensed facilities in the same watershed. The Project incurred $3,323,989 in relicensing costs between 2000 and 2005 when the license was issued. The Project is amortizing these costs over the 40 year term of the new licenses. The Project incurred additional recreation costs of $6,565,949 at Beardsley reservoir from 2009 to 2014 as a condition of obtaining the licenses. A grant for $1,676,000 was received from the State of California to pay for a portion of these recreation costs incurred since 2009, including $1,472,435 recognized as grant revenue and administrative expenses in 2013. The remaining recreation costs of $4,889,949 paid for by the Project are being amortized over the remaining term of the licenses. The licenses also require minimum water flows on the Middle Fork of the Stanislaus River that could result in less water available for power generation during dry years.

The FERC license is an intangible asset that is classified as part of capital assets under GASB Statement No.51.

## NOTE D – NONCURRENT LIABILITIES

The activity of noncurrent liabilities during the years ended December 31 was as follows:

| | Balance at January 1, 2015 | Additions | Repayments | Balance at December 31, 2015 | Due within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 441,825 | $ 177,781 | $ (209,160) | $ 410,446 | $ 221,641 |
| Other postemployment benefits | 101,538 | 53,172 | (17,955) | 136,755 | |
| | $ 543,363 | $ 230,953 | $ (227,115) | $ 547,201 | $ 221,641 |

| | Balance at January 1, 2014 | Additions | Repayments | Balance at December 31, 2014 | Due within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 438,407 | $ 227,394 | $ (223,976) | $ 441,825 | $ 245,213 |
| Other postemployment benefits | 72,916 | 48,949 | (20,327) | 101,538 | |
| | $ 511,323 | $ 276,343 | $ (244,303) | $ 543,363 | $ 245,213 |

As discussed in the Reclassification paragraph of Note A, the Project determined compensated absences and OPEB liabilities should not have been reduced by the portion of the liabilities that will be reimbursed by the Authority under the expense reimbursement policy. As a result, the compensated absences liability above was increased by $36,189 and $35,818 and the OPEB liability above was increased by $10,878 and $7,764 at December 31, 2014 and 2013, respectively, and the Services receivable, Tri-Dam Power Authority was increased by the same amount.

## NOTE E – NET POSITION

Commitments: Commitments of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Commitments may be modified, amended or removed by Board action. The following committed net position balances existed at December 31:

| | 2015 | 2014 |
|---|---|---|
| Maintenance reserve | $ 3,100,000 | $ 3,000,000 |
| Operating reserve | 6,000,000 | 6,000,000 |
| Total commited net position | $ 9,100,000 | $ 9,000,000 |

The maintenance reserve was spent on the third generating unit at Tulloch Reservoir as of December 31, 2012 and is being re-established in the amount of $15 million with additions of $1.5 million per year ($750,000 each January and July) beginning during 2013. During 2015, approximately $1.4 million of the maintenance reserve was spent on various projects. The operating reserve was established at $6 million by Board resolution in a prior year.

## NOTE F – DISTRIBUTIONS TO MEMBER DISTRICTS

The project provided the following cash distributions to Member Districts from surplus operation funds during the years ended December 31:

NOTE F – DISTRIBUTIONS TO MEMBER DISTRICTS (Continued)

| | 2015 | 2014 |
|---|---|---|
| Oakdale Irrigation District | $ 4,379,500 | $ 4,662,000 |
| South San Joaquin Irrigation District | 4,379,500 | 4,662,000 |
| Total distributions to Member Districts | $ 8,759,000 | $ 9,324,000 |

NOTE G – PENSION PLANS

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

- Miscellaneous Plan
- PEPRA Miscellaneous Plan

Benefit provisions under the Plans are established by State statute and Board 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 at www.calpers.ca.gov.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the following: the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Plan provisions and benefits in effect for the years ended December 31 are summarized as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| Hire date | Miscellaneous Plan (Prior to January 1, 2013) | PEPRA Miscellaneous Plan (On or after January 1, 2013) | Miscellaneous Plan (Prior to January 1, 2013) | PEPRA Miscellaneous Plan (On or after January 1, 2013) |
| Benefit formula (at full retirement) | 2.5% @ 55 | 2.0% @ 62 | 2.5% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 52 - 67 | 50 - 55 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.00-2.50% | 1.0% to 2.5% | 2.00-2.50% | 1.0% to 2.5% |
| Required employee contribution rates: | | | | |
| July 1 to December 31 | 8.000% | 6.250% | 8.000% | 6.500% |
| January 1 to June 30 | 8.000% | 6.500% | 8.000% | 6.500% |
| Required employer contribution rates: | | | | |
| July 1 to December 31 | 17.451% | 6.237% | 15.701% | 6.250% |
| January 1 to June 30 | 15.701% | 6.250% | 14.660% | 6.250% |

The Miscellaneous Plan is closed to new members that are not already CalPERS eligible participants.

NOTE G – PENSION PLANS (Continued)

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the 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 Project is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended December 31, the contributions for the Plans were as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Miscellaneous Plan | PEPRA Miscellaneous Plan | Total | Miscellaneous Plan | PEPRA Miscellaneous Plan | Total |
| Contributions - employer | $ 354,663 | $ 15,869 | $ 370,532 | $ 322,163 | $ 4,116 | $ 326,279 |
| Contributions - employee (paid by employer) | 115,003 | | 115,003 | 119,648 | | 119,648 |
| | $ 469,666 | $ 15,869 | $ 485,535 | $ 441,811 | $ 4,116 | $ 445,927 |

The 2015 employer contributions above include an $89,630 lump sum prepayment made by the Project during 2015.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of December 31, the Project reported a net pension liability for its proportionate share of the net pension liabilities of the Plans as follows:

| | 2015 | 2014 |
|---|---|---|
| | Proportionate Share of Net Pension Liability | Proportionate Share of Net Pension Liability |
| Miscellaneous Plan | $ 3,919,387 | $ 2,958,335 |
| Total Net Pension Liability | $ 3,919,387 | $ 2,958,335 |

The net pension liability of the PEPRA Miscellaneous Plan was immaterial as of the June 30, 2015 and 2014 measurement dates and was not recorded by the Project.

The Project's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans as of December 31, 2015 and 2014 is measured as of June 30, 2015 and 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013 rolled forward to June 30, 2015 and 2014, respectively, using standard update procedures as required by GASB Statement No. 68. The Project's proportion of the net pension liability was based on a projection of the Project's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Project's proportionate share of the net pension liability for the Plans as of June 30 was as follows:

NOTE G – PENSION PLANS (Continued)

| | 2015 Miscellaneous Plan | 2014 Miscellaneous Plan |
|---|---|---|
| Proportion - June 30, 2014 | 0.119699% | |
| Proportion - June 30, 2015 | 0.142863% | |
| Change - Increase (Decrease) | 0.023164% | |
| Proportion - June 30, 2013 | | 0.122336% |
| Proportion - June 30, 2014 | | 0.119699% |
| Change - Increase (Decrease) | | -0.002637% |

For the years ended December 31, 2015 and 2014 the Project recognized pension expense of $1,804,693 and $395,463 for all Plans combined, respectively. At December 31, the Project reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | $ 259,437 | | $ 219,364 | |
| Differences between actual and expected experience | 20,775 | | | |
| Changes in assumptions | | $ (196,547) | | |
| Differences between the employer's contributions and the employer's proportionate share of contributions | | (98,594) | | $ (53,348) |
| Change in employer's proportion | | (309,035) | 18,130 | |
| Net differences between projected and actual earnings on plan investments | | (844,134) | | (994,138) |
| Total | $ 280,212 | $ (1,448,310) | $ 237,494 | $ (1,047,486) |

The $259,437 and $219,364 reported as deferred outflows of resources related to contributions subsequent to the measurement date at December 31, 2015 and 2014 will be recognized as a reduction of the net pension liability in the years ended December 31, 2016 and 2015, respectively. Other amounts reported as net deferred inflows of resources related to pensions will be recognized as pension expense as follows as of December 31:

| Year Ended December 31 | 2015 | 2014 |
|---|---|---|
| 2015 | | $ (261,112) |
| 2016 | $ (486,017) | (261,112) |
| 2017 | (483,501) | (258,597) |
| 2018 | (433,385) | (248,535) |
| 2019 | (24,632) | |
| | $ (1,427,535) | $ (1,029,356) |

<u>Actuarial Assumptions</u>: The total pension liabilities in the June 30, 2014 and 2013 actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

NOTE G – PENSION PLANS (Continued)

| | 2015 | 2014 |
|---|---|---|
| Valuation Date | June 30, 2014 | June 30, 2013 |
| Measurement Date | June 30, 2015 | June 30, 2014 |
| Actuarial Cost Method | Entry-Age Normal Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | | |
| Discount Rate | 7.65% | 7.5% |
| Inflation | 2.75% | 2.75% |
| Payroll Growth | 3.0% | 3.0% |
| Projected Salary Increase | 3.2% - 12.2% (1) | 3.3% - 14.2% (1) |
| Investment Rate of Return | 7.65% | 7.5% (2) |
| Mortality | Derived using CalPERS Membership Data for all Funds | Derived using CalPERS Membership Data for all Funds |

(1) Depending on entry age and service
(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of a January 2014 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate: The discount rates used by CalPERS to measure the total pension liability were 7.65% and 7.50% in the June 30, 2014 and 2013 valuations for each Plan. 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 are projected to run out of assets. Therefore, the current discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65% investment return assumption used in the June 30, 2014 valuation was corrected by CalPERS to no longer be reduced for administrative expenses. The 7.50 percent investment return assumption used in the June 30, 2013 valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent in the June 30, 2013 valuation. Using this lower discount rate resulted in a slightly higher Total Pension Liability and Net Pension Liability in the June 30, 2013 valuation. CalPERS assessed the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset/Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach.

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

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

NOTE G – PENSION PLANS (Continued)

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 for each of the Plans as of the measurement dates of June 30. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| Asset Class | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
| Global Equity | 51.0% | 5.25% | 5.71% | 47.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0% | 0.99% | 2.43% | 19.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% | 12.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% | 11.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% | 3.0% | 4.50% | 5.09% |
| Liquidity | 2.0% | (0.55)% | (1.05)% | 2.0% | (0.55)% | (1.05)% |
| Total | 100.0% | | | 100.0% | | |

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

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

| | 2015 Miscellaneous Plan | 2014 Miscellaneous Plan |
|---|---|---|
| 1% Decrease | 6.65% | 6.50% |
| Net Pension Liability | $ 6,573,106 | $ 5,270,838 |
| Current Discount Rate | 7.65% | 7.50% |
| Net Pension Liability | $ 3,919,387 | $ 2,958,335 |
| 1% Increase | 8.65% | 8.50% |
| Net Pension Liability | $ 1,728,456 | $ 1,039,177 |

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

Payable to the Pension Plan: At December 31, 2015 and 2014, the Project reported payables for the outstanding amount of contributions to the pension plan required as follows, including employee withholdings:

| | 2015 | 2014 |
|---|---|---|
| Miscellaneous Plan | $ - | $ 19,091 |
| PEPRA Miscellaneous Plan | | 820 |
| | $ - | $ 19,911 |

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The Project's other postemployment benefits plan (the OPEB Plan) is a single-employer defined benefit healthcare plan administered by the Project. The OPEB Plan provides healthcare insurance coverage for eligible retirees through the Project's group medical insurance plan, which covers both active and retired participants. Employees are eligible to participate in the OPEB Plan if they have ten years of continuous service, attain age 55 and retire directly from the Project. Since premiums are determined for active employees and retirees on a combined basis, an implied subsidy must be reflected under GASB 45. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the Project and its employees as approved by the Board of Directors. The OPEB Plan provides that the Project will continue to provide retired employees group medical coverage and that retired employees will reimburse the Project for one-half of their health insurance costs for up to ten years of benefits. At age 65 the retired employee is dropped from coverage and becomes eligible to participate in the federal government's Medicare insurance program.

Funding Policy: The contribution requirements of the OPEB Plan participants and the Project are established and may be amended by the Project. The Project's funding commitment is in accordance with a Memorandum of Understanding with its employees and subject to change with each new MOU. Employees are not required to contribute to the OPEB Plan. It is the policy of the Project to fund postretirement healthcare premiums on a pay-as-you go basis. The Project has no separate trust or plan assets.

Annual OPEB Cost and Net OPEB Obligation: The Project's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Project's annual OPEB cost for the year, the amount actually contributed to the OPEB Plan, and changes in the Project's Net OPEB obligation:

| | 2015 | 2014 |
|---|---|---|
| Annual required contribution (ARC) | $ 52,575 | $ 48,390 |
| Interest on net OPEB obligation | 597 | 559 |
| Annual OPEB cost (expense) | 53,172 | 48,949 |
| Contributions made | (17,955) | (20,327) |
| Increase in net OPEB obligation | 35,217 | 28,622 |
| Net OPEB obligation beginning of year | 101,538 | 72,916 |
| Net OPEB obligation (asset) - end of year | $ 136,755 | $ 101,538 |

As discussed in the Reclassification paragraph of Note A and Note D, the Project determined the OPEB liability should not have been reduced for the portion of the liability that will be reimbursed by the Authority. As a result, the December 31, 2014 and 2013 OPEB obligation above was increased by $10,878 and $7,764, respectively, and the Services receivable, Tri-Dam Power Authority was increased by the same amount.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

The Project's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the new OPEB obligation for the years ending December 31 were as follows:

| Fiscal Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| December 31, 2013 | $ 40,696 | 51.19% | $ 72,916 |
| December 31, 2014 | 48,949 | 41.53% | 101,538 |
| December 31, 2015 | 53,172 | 33.77% | 136,755 |

Funded Status and Funding Progress: The funded status of the Plan was as follows as of December 31:

| | 2015 | 2014 |
|---|---|---|
| Actuarial accrued liability (AAL) | $ (316,059) | $ (296,554) |
| Actuarial value of plan assets | | |
| Unfunded actuarial accrued (liability) asset (UAAL) | $ (316,059) | $ (296,554) |
| Funded ratio (actuarial value of plan assets/AAL) | 0.00% | 0.00% |
| Covered payroll (active plan members) | $ 1,936,368 | $ 1,943,487 |
| UAAL as a percentage of covered payroll | -16.32% | -15.26% |

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments 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 the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

For the December 31, 2015 and 2014 valuations, the Project elected to use the alternative measurement method as allowed under Governmental Accounting Standards Board Statement No. 45. The Project computed its ARC using the unit cost credit method with UAAL amortized as a level dollar amount. The actuarial assumptions in 2015 include health premium increases of 3.1% to 8.9%, a 3.57% investment rate of return and an 83.9% to 100% probability of remaining employed until retirement. The actuarial assumptions in 2014 include health premium increases of 3.1% to 8.5%, a 3.56% investment rate of return and an 83% to 100% probability of remaining employed until retirement. The following assumptions were used for both 2015 and 2014: an average retirement age of 60 and an average life expectancy of more than 65 years. The initial UAAL was amortized as a level dollar amount over an open 30-year period as of December 31, 2015 and 2014, respectively.

## NOTE I – CONTINGENCIES AND COMMITMENTS

**Regulatory**

Bay Delta Water Quality Standards: The State Water Resources Control Board continues to periodically conduct hearings relating to the development and implementation of a water quality control plan(s) for the San Francisco Bay and Sacramento/San Joaquin Delta. The last Water Quality Control Plan was adopted in 2006, and the State Water Resources Control Board is presently working on an amendment to the 2006 plan which will likely require the bypass or release of additional water on the Stanislaus River and may include carryover storage requirements. If adopted and implemented, this amended plan could affect the amount and timing of water to be released into the Delta by water rights holders such as Oakdale Irrigation District and South San Joaquin Irrigation District, and therefore also negatively impact the Project's power generating activities on the Stanislaus River. It is not expected that implementation will be completed in 2016.

Biological Opinion: Jurisdiction over fisheries migrating to or in the oceans under the Endangered Species Act rests with the United States Department of Commerce's National Marine Fisheries Service, a division of the Oceanic and Atmospheric Administration (NMFS). In June 2009, NMFS issued a final biological opinion and imposed new flow requirements on the USBR in its operation of New Melones Reservoir. The flow requirements and the effects of a multi-year drought have depleted the volume of water stored at New Melones Reservoir and impact the water available to the Member Districts under the 1988 Agreement and Stipulation. Although the U.S. District Court overturned the biological opinion upon challenge from the Member Districts, the U.S. Ninth Circuit Court of Appeals upheld the opinion in December 2014. The Member Districts are working with the USBR on a plan of operation this year for New Melones that will enable the USBR to comply with the requirements of the 2009 biological opinion and other instream flow requirements without negatively affecting the Member Districts' senior water rights.

The Member Districts are actively involved in these and other regulatory proceedings and litigation related to water rights and water supply. It is not possible to determine the potential cost or financial impact of these regulatory actions to the Member Districts or the Project.

Claims

The Project is a party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the Project's legal counsel believe that there are no loss contingencies that would have a material adverse impact on the financial position of the Project.

## NOTE J – CHANGES IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2015, the Project adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These Statements required the Project to recognize in its financial statements the proportional share of the net pension liability, deferred outflows of resources and deferred inflows of resources for the Project's cost-sharing pension plans. These Statements also required contributions made after the measurement date used in the actuarial valuations for the pension plans to be reported as deferred outflows of resources.

Due to the implementation of these Statements, total deferred outflows of resources increased by $223,359, total liabilities increased by $4,042,150 and total net position decreased by $3,818,791 as of January 1, 2014. Operating expenses for the year ended December 31, 2014 decreased by $50,464, while net income from operations and change in net position increased by $50,464 from what was originally reported on the Statements of Revenues, Expenses and Changes in Net Position.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - MISCELLANEOUS PLAN (UNAUDITED)**
**Last 10 Years**

| | 2015 | 2014 |
|---|---|---|
| Proportion of the net pension liability | 0.142863% | 0.119699% |
| Proportionate share of the net pension liability | $ 3,919,387 | $ 2,958,335 |
| Covered - employee payroll | $ 1,936,368 | $ 1,943,487 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 202.41% | 152.22% |
| Plan fiduciary net position | $ 10,896,036,068 | $ 10,639,461,174 |
| Plan fiduciary net position as a percentage of the total pension liability | 79.89% | 83.03% |

Notes to Schedule:
Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 ( for 2015) and 2013 (for 2014) as they have minimal cost impact.

Changes in assumptions: None.

Omitted years: GASB Statement No. 68 was implemented during the year ended December 31, 2014. No information was available prior to this date.

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN (UNAUDITED)**
**Last 10 Years**

| | 2015 | 2014 |
|---|---|---|
| Contractually required contribution (actuarially determined) | $ 370,532 | $ 326,279 |
| Contributions in relation to the actuarially determined contributions | (370,532) | (326,279) |
| Contribution deficiency (excess) | $ - | $ - |
| Covered - employee payroll | $ 1,936,368 | $ 1,943,487 |
| Contributions as a percentage of covered - employee payroll | 19.14% | 16.79% |

Notes to Schedule:
Valuation date: June 30, 2014 (for 2015) and June 30, 2013 (for 2014)

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Actuarial Method | Entry Age Normal Cost Method |
| Amortization Method | Difference Between Projected and Actual Earnings is Amortized Straight-line Over 5 Years. All Other Amounts are Amortized Straight-line Over Average Remaining Service Life of Participants |
| Remaining Amortization Period | Not Stated |
| Asset Valuation Method | 5-year Smoothed Market |
| Inflation | 2.75% |
| Salary Increases | 3.20% to 12.20% (2015) 3.30% to 14.20% (2014) Depending on Entry Age and Service |
| Investment Rate Of Return | 7.65% (2015) and 7.50% Net of Administrative Expenses (2014); Including Inflation. |
| Retirement Age | 50-67 Years. Probabilities of Retirement are Based on the 2010 CalPERS Experience Study for the Period 1997 to 2007. |
| Mortality | CalPERS Specific Data from January 2014 Actuarial Experience Study for the Period 1997 to 2011 that Uses 20 Years of Mortality Improvements Using Society of Actuaries Scale BB. |

Omitted Years: GASB Statement No. 68 was implemented during the year ended December 31, 2014. No information was available prior to this date.

## SCHEDULE OF FUNDING PROGRESS FOR THE OTHER POSTEMPLOYMENT BENEFITS PLAN (UNAUDITED)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| December 31, 2013 | $ - | $ 261,360 | $ 261,360 | 0.00% | $ 1,991,980 | 13.12% |
| December 31, 2014 | - | 296,554 | 296,554 | 0.00% | 1,943,487 | 15.26% |
| December 31, 2015 | - | 316,059 | 316,059 | 0.00% | 1,936,368 | 16.32% |

OTHER SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES – OPERATIONS, MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Donnells Facility: | | |
| Operations | | |
| Supervision wages and benefits | $ 34,217 | $ 32,379 |
| Hydraulic wages and benefits | 12,932 | 12,338 |
| Electric wages and benefits | 341,298 | 216,775 |
| Other wages and benefits | 1,928 | 13,460 |
| Supplies and materials | 46,462 | 23,667 |
| Total Operations | 436,837 | 298,619 |
| Maintenance | | |
| Supervision wages and benefits | 15,620 | 20,303 |
| Structures wages and benefits | 6,366 | 11,434 |
| Reservoirs and dams wages and benefits | 25,593 | 41,352 |
| Electrical plant wages and benefits | 102,051 | 61,717 |
| Other wages and benefits | 70,643 | 7,096 |
| High voltage wages and benefits | | 1,201 |
| Communications and security wages and benefits | 16,731 | 8,347 |
| Supplies and materials | 716,103 | 49,083 |
| Total Maintenance | 953,107 | 200,533 |
| Power generation marketing | | 83 |
| Total Donnells Facility | 1,389,944 | 499,235 |
| | | |
| Beardsley Facility: | | |
| Operations | | |
| Supervision wages and benefits | 36,853 | 22,490 |
| Hydraulic wages and benefits | 28,641 | 23,747 |
| Electric wages and benefits | 284,793 | 170,345 |
| Other wages and benefits | 5,444 | 20,308 |
| Supplies and materials | 18,135 | 4,658 |
| Total Operations | 373,866 | 241,548 |
| Maintenance | | |
| Supervision wages and benefits | 246,104 | 138,450 |
| Structures wages and benefits | 62,723 | 27,785 |
| Reservoirs and dams wages and benefits | 91,429 | 52,355 |
| Electrical plant wages and benefits | 131,985 | 58,739 |
| Other wages and benefits | 57,467 | 14,114 |
| High voltage wages and benefits | 2,744 | 289 |
| Communications and security wages and benefits | 79,862 | 15,543 |
| Supplies and materials | 631,181 | 88,336 |
| Total Maintenance | 1,303,495 | 395,611 |

SUPPORTING SCHEDULES OF EXPENSES – OPERATIONS, MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| General and Administrative | | |
| USFS resource management support | $ 59,122 | $ 58,171 |
| Total General & Administrative | 59,122 | 58,171 |
| Power generation marketing | | (21) |
| Total Beardsley Facility | 1,736,483 | 695,309 |
| Tulloch Facility: | | |
| Operations | | |
| Supervision wages and benefits | 174,828 | 124,425 |
| Hydraulic wages and benefits | 16,240 | 44,055 |
| Electric wages and benefits | 364,236 | 235,694 |
| Other wages and benefits | 1,250 | 29,928 |
| Supplies and materials | 8,343 | 4,902 |
| Total Operations | 564,897 | 439,004 |
| Maintenance | | |
| Supervision wages and benefits | 86,563 | 77,000 |
| Structures wages and benefits | 27,238 | 38,628 |
| Reservoirs and dams wages and benefits | 59,198 | 33,829 |
| Electrical plant wages and benefits | 187,345 | 176,127 |
| Other wages and benefits | 133,088 | 3,694 |
| High voltage wages and benefits | | 597 |
| Communications and security wages and benefits | 17,870 | 8,257 |
| Supplies and materials | 52,803 | 124,638 |
| Total Maintenance | 564,105 | 462,770 |
| General and Administrative | | |
| Supplies and materials | 7,657 | 2,677 |
| Headwater benefit assessment | 90,270 | 90,293 |
| Other | 8,128 | 7,680 |
| Total General and Administrative | 106,055 | 100,650 |
| Power generation marketing | | (32) |
| Total Tulloch Facility | 1,235,057 | 1,002,392 |
| Mt Elizabeth Facility: | | |
| Operations | | |
| Supplies and materials | 11,554 | 11,898 |
| Maintenance | | |
| Supervision wages and benefits | 28 | |
| Structures wages and benefits | 406 | 5,128 |
| Other wages and benefits | 2,813 | 1,944 |
| Communications and security wages and benefits | 11,871 | 19,160 |
| Supplies and materials | 7,735 | 3,061 |
| Total Maintenance | 22,853 | 29,293 |
| Total Mt. Elizabeth Facility | 34,407 | 41,191 |

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES – OPERATIONS, MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Strawberry Peak Facility: | | |
| Operations | | |
| Supplies and materials | $ 7,956 | $ 7,767 |
| Maintenance | | |
| Supervision wages and benefits | | 816 |
| Structures wages and benefits | 718 | 957 |
| Other wages and benefits | 1,230 | 3,608 |
| Communications and security wages and benefits | 9,547 | 8,323 |
| Supplies and materials | 93 | 6,581 |
| Total Maintenance | 11,588 | 20,285 |
| Total Strawberry Peak | 19,544 | 28,052 |
| Operations Center: | | |
| Operations | | |
| Supervision wages and benefits | 33,555 | 20,873 |
| Electric wages and benefits | 197,153 | 195,970 |
| Supplies and materials | 4,228 | 3,831 |
| Total Operations | 234,936 | 220,674 |
| Maintenance | | |
| Structures wages and benefits | 1,761 | 869 |
| Other wages and benefits | 6,590 | 22,283 |
| Communications and security wages and benefits | 44,652 | 51,050 |
| Supplies and materials | 20,041 | 11,093 |
| Total Maintenance | 73,044 | 85,295 |
| Total Operations Center | 307,980 | 305,969 |
| Service Center Facilities: | | |
| Operations | | |
| Hydraulic wages and benefits | | |
| Total Operations | | |
| Maintenance | | |
| Structures wages and benefits | 340 | 2,277 |
| Supplies and materials | 209,634 | 184,397 |
| Total Maintenance | 209,974 | 186,674 |
| Total Service Center | 209,974 | 186,674 |
| Division Point Facility: | | |
| Operations | | |
| Supervision wages and benefits | 33,555 | 20,873 |
| Hyrdraulic wages and benefits | 25,055 | 21,788 |
| Electric wages and benefits | 139,935 | 92,684 |
| Supplies and materials | 2,452 | 2,711 |
| Total Operations | 200,997 | 138,056 |

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES – OPERATIONS, MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Maintenance | | |
| Supervision wages and benefits | $ 1,261 | $ 2,894 |
| Structures wages and benefits | 629 | 6,156 |
| Reservoirs and dams wages and benefits | 10,647 | 24,811 |
| Other wages and benefits | 3,997 | 1,912 |
| Communications and security wages and benefits | 8,241 | 4,229 |
| Supplies and materials | 6,076 | 22,192 |
| Total Maintenance | 30,851 | 62,194 |
| Total Division Point | 231,848 | 200,250 |
| Total Operations and Maintenance | 5,000,060 | 2,800,221 |
| Overall General and Administrative: | | |
| Outside services | 705,015 | 657,390 |
| Administrative wages and benefits | 764,329 | 572,828 |
| Property insurance | 342,746 | 393,549 |
| FERC license fees | 137,048 | 205,714 |
| Safety fees and expense | 179,715 | 85,743 |
| Other wages and benefits-mobile equip. operation | 104,714 | 66,208 |
| Streamgaging | 67,969 | 63,048 |
| Miscellaneous | 13,968 | 8,801 |
| Utilities | 31,564 | 30,828 |
| Meals allowance and travel expense | 25,655 | 25,397 |
| Telephone, internet, data links | 52,480 | 42,170 |
| Office supplies and expense | 30,983 | 31,561 |
| Computer supplies | 6,737 | 7,778 |
| County taxes | 10,441 | 6,261 |
| Professional organizations | 6,640 | 7,323 |
| Total Overall General and Administrative | 2,480,004 | 2,204,599 |
| Total General and Administrative | 2,645,181 | 2,363,420 |
| Total Power Generation Marketing | | 30 |
| Depreciation and Amortization | | |
| Depreciation on capital assets | 1,690,449 | 1,691,116 |
| FERC relicensing amortization | 233,532 | 226,987 |
| Total Depreciation and Amortization | 1,923,981 | 1,918,103 |
| TOTAL OPERATING EXPENSES | $ 9,569,222 | $ 7,081,774 |
| SUMMARY OF OPERATING EXPENSES BY TYPE | | |
| Operations | $ 1,831,043 | $ 1,357,566 |
| Maintenance | 3,169,017 | 1,442,655 |
| General and administrative | 2,645,181 | 2,363,420 |
| Power generation marketing | | 30 |
| Depreciation and amortization | 1,923,981 | 1,918,103 |
| TOTAL OPERATING EXPENSES | $ 9,569,222 | $ 7,081,774 |

COMPLIANCE REPORT

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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Tri-Dam Project
Strawberry, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Tri-Dam Project (the Project) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Project's basic financial statements, and have issued our report thereon dated May 17, 2016.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Project's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
Tri-Dam Project

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

May 17, 2016