TRI-DAM POWER AUTHORITY

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2016

PREPARED BY THE FINANCE DEPARTMENT

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TRI-DAM POWER AUTHORITY

BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

Table of Contents

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Tri-Dam Power Authority
Strawberry, California

Report on Financial Statements

We have audited the accompanying basic financial statements of Tri-Dam Power Authority (Authority) as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2016 and changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 Authority's internal control over financial reporting and compliance.

Prior Year Comparative Information

The financial statements of the Authority as of December 31, 2015, were audited by other auditors whose report dated May 17, 2016, expressed an unmodified opinion on those statements.

Maze + Associates

Pleasant Hill, California
April 10, 2017

TRI-DAM POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of the Tri-Dam Power Authority's (Authority) financial position as of December 31, 2016 and 2015, and the Authority's financial performance for the years then ended. Condensed financial information for 2014 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 those financial statements, and the other additional information provided.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

- The Authority enjoyed above normal levels of generation during 2016 as the California drought subsided. Total generation at the Authority's run-of-the-river Sand Bar hydroelectric facility totaled 94,000 megawatt hours (MWh), a significant improvement from 2015 total generation of 30,000 MWh.
- Operating revenues from power generation improved \$1.65 million to \$5.24 million as compared to the prior year total generation revenues of \$3.58 million.
- Operating expenses increased \$128,000 from the prior year, primarily as a result of costs associated with the January 1, 2017 conversion from Pacific Gas & Electric Company (PG&E), to the City of Santa Clara, California, which will be the sole wholesale purchaser of the Authority's electrical output.
- Nonoperating expenses declined \$128,000 from the prior year due to lower interest expense on the Authority's outstanding debt. The Authority paid off the last of the 2010 Revenue Refunding bonds in November 2016 and had no debt outstanding as of the end of the year.
- Total net position, the level by which total assets exceed total liabilities, increased by \$3.80 million, from \$24.62 million at December 31, 2015 to \$28.42 million at December 31, 2016.

FINANCIAL ANALYSIS OF THE AUTHORITY

This section is intended to serve as an introduction to the Authority's Basic Financial Statements and Compliance Report. The financial data contained herein reflect the audited 2016 and 2015 financial results.

The Authority's resources are allocated and accounted for in the financial statements as an enterprise fund type of the proprietary fund group, and the Authority maintains its financial records and reporting in accordance with all applicable Government Accounting Standards Board (GASB) pronouncements.

Because the Authority does not have any employees, the Authority is not subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions*. The Authority is managed and operated by employees on loan from Tri-Dam Project, a related but separate entity.

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 method 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 method of accounting, but instead detail the actual receipt and payment of cash during the year.

The Balance Sheets detail the Authority's assets, liabilities 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 Power Authority should always be analyzed in combination with the level and trend of distributions to the Oakdale Irrigation District and the South San Joaquin Irrigation District (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 Authority's cash and cash equivalents during the year. Cash flow sources and uses are categorized by the Authority as operating 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 behind the numbers.

Compliance Report

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

BALANCE SHEETS

The following table illustrates the Authority's condensed balance sheets for 2016, 2015 and 2014.

Condensed Balance Sheets

	2016	2015	Increase (Decrease)	2014	Increase (Decrease)
Assets					
Current Assets	$ 3,275,235	$ 2,529,466	$ 745,769	$ 2,250,283	$ 279,183
Restricted Assets	-	1,640,059	(1,640,059)	1,640,029	30
Captial Assets, Net	25,236,033	25,699,758	(463,725)	26,211,199	(511,441)
Total Assets & Deferred Outflows	$ 28,511,268	$ 29,869,283	$ (1,358,015)	$ 30,101,511	$ (232,228)
Liabilities					
Current Liabilities	$ 88,085	$ 5,250,018	$ (5,161,933)	$ 3,170,509	$ 2,079,509
Noncurrent Liabilities	-	-	-	4,455,733	(4,455,733)
Total Liabilities	88,085	5,250,018	(5,161,933)	7,626,242	(2,376,224)
Net Position					
Net Investment in Capital Assets	25,236,033	21,309,605	3,926,428	19,160,466	2,149,139
Restricted for Debt Service	-	1,640,059	(1,640,059)	1,640,029	30
Unrestricted	3,187,150	1,669,601	1,517,549	1,674,774	(5,173)
Total Net Position	28,423,183	24,619,265	3,803,918	22,475,269	2,143,996
Total Liabilities and Net Position	$ 28,511,268	$ 29,869,283	$ (1,358,015)	$ 30,101,511	$ (232,228)

Assets

2016 compared to 2015

Current assets increased $746,000 during 2016 due to a $624,000 increase in unrestricted cash and cash equivalents. The improvement in the Authority's unrestricted cash balances was primarily due to improved generation revenues and the decision of the Authority's Board of Commissioners to delay cash distributions to the Member Districts until January 2017. Moreover, the final payoff of the 2010 Revenue Refunding bonds in November utilized all restricted cash balances. The principal balance of the bonds paid off in 2016 was approximately $1.6 million greater than the balances paid off in previous years; therefore, total unrestricted and restricted cash and cash equivalents actually decreased by $894,000. Nonetheless, the elimination of debt payments will allow the Authority to build cash at a more rapid pace going forward. Current assets also increased due to a $125,000 increase in the power generation receivable from PG&E resulting from an improvement in December power generation versus the prior year.

Capital assets declined by $464,000 as a result of normal depreciation of $507,000, net of capital asset additions of $43,000. The only asset addition was new metering and related assets required by the California Independent System Operator as part of the Authority's transition to deliver power to the City of Santa Clara beginning January 1, 2017.

2015 compared to 2014
Current assets increased by $279,000 during 2015, due to an increase of $498,000 in cash and cash equivalents. As with 2014, the Authority's Board of Commissioners voted to forego any cash distributions to the Member Districts in order to preserve cash and ensure that the Authority would be able to service its debt in 2016. The final two principal and interest payments on the Authority's 2010 Revenue Refunding bonds are due in 2016, and total approximately $4.5 million, significantly greater than prior year payments of approximately $2.8 million. Accordingly, cash reserves were increased. Partially offsetting the increase in cash and cash equivalents was a $214,000 decline in the power generation receivable from PG&E, resulting from lower December generation and lower wholesale electric prices than as of the prior year-end.

The Authority's current restricted assets totaled $1.64 million as of year-end 2015, and represented money market funds held by the trustee on behalf of the holders of the Authority's bonds. These funds were restricted for use and can only be used to make bond payments should the Authority's unrestricted funds for such payments be deficient or for the final bond payment.

Capital assets declined by $511,000 as a result of normal depreciation of $501,000 and disposals of $10,000. As was the case during 2014, the Authority had no capital asset additions during 2015.

Liabilities
2016 compared to 2015
The Authority ended 2016 with only $88,000 in total liabilities, almost all of which represented accrued payroll and other labor costs owed to Tri-Dam Project. During 2016, the Authority paid off all outstanding debt and also reimbursed Tri-Dam Project for the majority of amounts owed that had previously been deferred for nearly two years. The elimination of all debt will significantly lessen cash flow demands going forward.

2015 compared to 2014
Current liabilities increased by $2.08 million, primarily because the Authority's final two bond payments were re-classified as a current liability. In addition, amounts due to Tri-Dam Project for accrued labor costs and equipment rental increased $294,000 from the prior year as Authority management withheld reimbursements to Tri-Dam Project in order to preserve cash. Management also elected to re-classify certain amounts owed to Tri-Dam Project, both current and noncurrent, into one account payable to Tri-Dam Project.

The Authority did not have any noncurrent liabilities as of year-end 2015, and ended the year with total liabilities of $5.25 million, a decline of $2.38 million from the prior year. The decline was attributable to the retirement of $2.60 million of outstanding bonds.

Net Position
2016 compared to 2015
Net position at the end of 2016 totaled $28.42 million, an increase of $3.80 million from the prior year. Net position invested in capital assets totaled $25.24 million, an increase of $3.93 million. The increase in net position invested in capital assets is primarily a result of the payoff of $4.39 million in related debt during 2016. As a result, unrestricted net position also increased, totaling $3.19 million, an increase of $1.52 million. The net investment in capital assets represents the Authority's investment in hydroelectric production facilities, a water conveyance tunnel, roads, bridges, and other equipment, the cost of which is recognized over the useful lives of these assets through depreciation expense. The net position invested in capital assets is shown on the balance sheets net of accumulated depreciation. The Authority did not have any restricted net position as of the end of 2016, also as a result of the elimination of debt.

The Authority's Board of Commissioners has also imposed minimum reserve balances which can be changed at the Board's discretion. These minimums are in place to ensure adequate reserve balances exist in the event of a system failure or to fund future projects.

2015 compared to 2014
Net position at the end of 2015 totaled $24.62 million, an increase of $2.14 million from the prior year. Net position at the end of 2015 was classified as invested in capital assets of $21.31 million, assets restricted for debt service of $1.64 million, and unrestricted assets of $1.67 million.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following table illustrates the Authority's condensed statements of revenues, expenses and changes in net position for 2016, 2015 and 2014.

	Condensed Statements of Revenues, Expenses and Changes in Net Position				
	2016	2015	Increase (Decrease)	2014	Increase (Decrease)
Operating Revenues	$ 5,235,825	$ 3,583,319	$ 1,652,506	$ 3,607,595	$ (24,276)
Operating Expenses	1,402,966	1,274,799	128,167	1,130,758	144,041
Net Operating Revenue (Expense)	3,832,859	2,308,520	1,524,339	2,476,837	(168,317)
Nonoperating Revenues	11,939	3,896	8,043	3,149	747
Nonoperating Expenses	(40,880)	(168,420)	127,540	(269,887)	101,467
Net Nonoperating Revenue (Expense)	(28,941)	(164,524)	(119,497)	(266,738)	(100,720)
Change in Net Position	3,803,918	2,143,996	1,659,922	2,210,099	(66,103)
Net Position, Beginning of Year	24,619,265	22,475,269	2,143,996	20,265,170	2,210,099
Less: Distributions to Member Districts	-	-	-	-	-
Net Position, End of Year	$ 28,423,183	$ 24,619,265	$ 3,803,918	$ 22,475,269	$ 2,143,996

Revenues
2016 compared to 2015
The Authority's primary revenue source during 2016 remained the sale of wholesale electricity generated by its Sand Bar hydroelectric plant. The Authority sold 100% of its power directly to PG&E during 2016 under the last year of a standard offer contract for qualifying facilities. The revenue included payment for capacity and energy calculated by the short run avoided cost tariff. Generation at the Sand Bar plant increased substantially during 2016 to approximately 94,000 MWh, from 30,000 MWh during 2015. Accordingly, generation revenue improved to $5.24 million, from $3.58 million in the prior year. Partially offsetting improved generation was a 14% decline in wholesale power prices received from PG&E.

As was the case in 2015, the only nonoperating revenues consisted $12,000 of interest income on investments. Interest income increased $8,000 as a result of higher investment balances and a general increase in market interest rates.

2015 compared to 2014
Revenues during 2015 consisted of wholesale electricity sales to PG&E, which totaled $3.58 million, slightly less than the prior year. Although generation at the Sand Bar plant increased during 2015 to approximately 30,000 MWh from 21,000 MWh during 2014, generation revenue actually declined slightly due to a substantial 31% decline in wholesale power prices.

Nonoperating revenues remained minimal during 2015, and consisted of only $3,900 in investment earnings.

Expenses
2016 compared to 2015
Operating expenses totaled $1.40 million during 2016, an increase of $128,000, or 10.1%. The increase was primarily due to increased administrative expense associated with consulting and engineering work performed to assist with modeling Stanislaus River flows and the related potential generation under the new framework of selling power to the City of Santa Clara.

Other significant operating expenses were incurred gaining interconnection approval of the Sand Bar plant with the California Independent System Operator. Interconnection approval was necessary due to the expiration of the 30-year power purchase agreement with PG&E and new agreement with the City of Santa Clara that commenced on January 1, 2017. Finally, labor costs rose $45,000 as a result of increased overtime and wage adjustments resulting from the ratification of a new memorandum of understanding with represented employees, along with other compensation adjustments for non-represented employees. Although the Authority does not have its own employees, direct labor and certain labor-related costs are accrued for employees on loan from Tri-Dam Project. The Authority periodically reimburses Tri-Dam Project for all allocated labor costs in accordance with a cost sharing agreement between the two entities.

Nonoperating expenses totaled $41,000, and consisted of the interest expense incurred on the refunding bonds. As mentioned previously, the Authority retired the final $4.3 million of bonds still outstanding in 2016.

2015 compared to 2014
Operating expenses totaled $1.27 million during 2015, an increase of $144,000, or 12.7%. The increase was primarily due to higher maintenance costs relative to the prior year when maintenance activities were minimal.

Nonoperating expenses totaled $168,000, and consisted of the interest expense incurred on bonds still outstanding. During 2015, the Authority retired $2.6 million of refunding bonds.

CAPITAL ASSETS

The following table illustrates the Authority's capital assets for 2016 and 2015.

CAPITAL ASSETS

	2016	2015	Increase (Decrease)
Construction in progress	$ 3,395	$ -	$ 3,395
Hydraulic production facilities	19,137,266	19,097,454	39,812
Conveyance tunnel	22,123,528	22,123,528	-
Roads and bridgers	1,510,573	1,510,573	-
Other equipment	2,545,156	2,545,156	-
Total Capital Assets	45,319,918	45,276,711	43,207
Less: accumulated depreciation	(20,083,885)	(19,576,953)	(506,932)
Net Capital Assets	$25,236,033	$25,699,758	$ (463,725)

During 2016, the Authority's capital assets net of accumulated depreciation decreased $464,000, due to normal depreciation of $507,000 and capital additions of $43,000. The only capital asset additions during the year were related to new metering and a supervisory control system project. Note 3 to the financial statements contains additional information regarding the Authority's capital assets.

EXPECTATIONS FOR 2017

Much greater than average rain and snowfall totals during the winter have resulted in much higher than average power generation thus far in 2017. Further, the deep snowpack in the Stanislaus River watershed should produce significant runoff well into the summer, which should allow the Authority to continue to generate power that will significantly exceed the levels seen in recent years. The price structure of the new contract with the City of Santa Clara is expected to result in a similar all-in price as has been received from PG&E in recent years. Accordingly, management expects net revenues to substantially exceed budgeted levels.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Tri-Dam Power Authority'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.

TRI-DAM POWER AUTHORITY
BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 2)	$2,905,837	$2,281,436
Prepaid expenses	36,518	40,196
Accrued interest receivable	232	23
Accounts receivable, power generation	332,648	207,811
Total Current Assets	3,275,235	2,529,466
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents with fiscal agent (Note 2)		1,640,059
Capital Assets (Note 3):		
Non-depreciable	3,395	
Depreciated, net	25,232,638	25,699,758
Total Noncurrent Assets	25,236,033	27,339,817
Total Assets	$28,511,268	$29,869,283
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable	$3,152	$16,393
Accrued interest payable		28,867
Accounts payable, Tri-Dam Project	84,933	813,310
Unearned revenue		1,295
Long-term debt, current portion		4,390,153
Total Current Liabilities	88,085	5,250,018
Total Liabilities	88,085	5,250,018
NET POSITION		
Net investment in capital assets	25,236,033	21,309,605
Restricted for debt service		1,640,059
Unrestricted	3,187,150	1,669,601
Total Net Position	28,423,183	24,619,265
TOTAL LIABILITIES AND NET POSITION	$28,511,268	$29,869,283

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

TRI-DAM POWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Power generation revenues	$5,235,825	$3,583,319
Total Operating Revenues	5,235,825	3,583,319
OPERATING EXPENSES		
Operations	340,090	272,874
Maintenance	194,185	244,993
General and administrative	361,759	245,491
Depreciation (Note 3)	506,932	511,441
Total Operating Expenses	1,402,966	1,274,799
NET INCOME FROM OPERATIONS	3,832,859	2,308,520
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	11,939	3,896
Interest expense	(40,880)	(168,420)
Total Nonoperating Revenues (Expenses)	(28,941)	(164,524)
CHANGE IN NET POSITION	3,803,918	2,143,996
NET POSITION, BEGINNING OF YEAR	24,619,265	22,475,269
NET POSITION, END OF YEAR	$28,423,183	$24,619,265

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

TRI-DAM POWER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	$5,108,903	$3,789,043
Cash payments to suppliers for goods and services	(1,633,184)	(448,568)
Cash flows from Operating Activities	3,475,719	3,340,475
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(43,416)	
Interest paid on long-term debt	(129,900)	(251,300)
Principal paid on long-term debt	(4,330,000)	(2,595,000)
Net Cash Used for Capital and Related Financing Activities	(4,503,316)	(2,846,300)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	11,939	3,891
Net Cash Provided by Investing Activities	11,939	3,891
NET CASH FLOWS	(1,015,658)	498,066
Cash and cash equivalents at beginning of year	3,921,495	3,423,429
Cash and cash equivalents at end of year	$2,905,837	$3,921,495
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Unrestricted cash and cash equivalents	$2,905,837	$2,281,436
Restricted cash and cash equivalents with fiscal agent		1,640,059
Cash and Cash Equivalents	$2,905,837	$3,921,495
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from operations	$3,832,859	$2,308,520
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	506,932	511,441
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses	3,678	5,164
(Increase) decrease in accounts receivable, power generation	(124,837)	213,694
Increase (decrease) in accounts payable	(13,241)	15,724
Increase (decrease) in accounts payable to Tri-Dam Project	(728,377)	293,902
Increase (decrease) in unearned revenue	(1,295)	(7,970)
Cash Flows from Operating Activities	$3,475,719	$3,340,475

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

BASIC FINANCIAL STATEMENTS

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Tri-Dam Power Authority (the Authority) 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 Authority is accounted for as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. The more significant of the Authority's accounting policies are described below.

A. Organization and Purpose

The Authority was formed as a separate entity under a Joint Exercise of Powers Agreement dated October 14, 1982 between the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts). The agreement will remain in effect until January 1, 2034. The Authority is governed by all five elected directors of the Oakdale Irrigation District and all five elected directors of the South San Joaquin Irrigation District; all members of the Board of Commissioners are also members of the Joint Board of Directors of the Tri-Dam Project. In 1984, the Authority issued Revenue Bonds to provide financing to acquire and construct one hydraulic turbine and generator to be installed in the vicinity of the Sand Bar Flat Diversion Dam, together with a related diversion facility, conveyance tunnel, transmission line, and necessary access roads, bridges, land, and improvements. The purpose of the Authority is to account for the activities related to the facilities above, as financed by the long-term debt described in the long-term liability footnote. The bonds were completely paid off in November 2016.

The Tri-Dam Project (the Project), is a related entity formed in 1948 under a joint cooperation agreement between the two Member Districts. Although it is operated jointly with the Authority, the Project's activity is excluded from the accompanying financial statements because the Authority is a separate legal entity that issues separate financial statements as required by its debt agreement. While the Project has the same joint board of directors as does the Authority, the Authority is not responsible for debts or other obligations of the Project, nor is the Project responsible for the debts or obligations of the Authority.

The Authority has an expense reimbursement policy with Tri-Dam Project under which labor, equipment rental and certain other expenses incurred for Authority activities are reimbursed to the Project. The Authority has no employees, but direct labor and labor-related costs for Project employees are reimbursed by the Authority under the expense reimbursement policy based on actual time incurred by Project employees on Authority activities. The Authority does not reimburse the Project for a proportional share of the Project's net pension liability as determined under GASB Statement No. 68, but does reimburse the Project for a proportional share of the Project's actuarially determined required pension contributions and postemployment benefits liability computed using direct salaries. The Project's management, at its discretion, may allow the Authority to defer the repayment of the reimbursable expenses until the Authority has sufficient available cash.

B. Basis of Presentation

The Authority'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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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, liabilities and deferred inflows 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.

The Authority 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 consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of power generation revenue. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. Expenses incurred to comply with the Authority's FERC license are considered operating expenses.

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

D. Budgetary Principals

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

E. 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.

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority 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, including assets of the type described above that are restricted.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Fair Value Hierarchy*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs - other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

H. *Restricted Assets*

Certain proceeds of the Authority's long-term debt are classified as restricted assets on the balance sheets because their use is limited by applicable bond covenants. The "reserve" account is used to report resources set aside to make up potential future deficiencies in the bond's debt service.

I. *Accounts Receivable*

Trade accounts receivable are carried at net realizable values. The Authority records power generation and capacity receivables for energy deliveries to Pacific Gas and Electric Company (PG&E). The Authority has determined that an allowance for doubtful accounts is not necessary.

J. *Capital Assets*

Capital assets are recorded at historical cost. Historical cost includes interest expense on debt capitalized during construction, if significant. 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 is calculated using the straight line method over the following estimated useful lives:

Class of Capital Asset	Estimated Lives in Years
Hydroelectric production facilities	25 - 100
Conveyance tunnel	100
Roads and bridges	10 - 100
Other Equipment	5 - 25

It is the Authority's policy to capitalize all 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 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Bonds Payable and Bond Premiums

Long-term debt is reported as long-term liabilities in the balance sheet. Bond premiums are deferred and amortized into interest expense over the life of the bonds using the straight-line method, which approximates the interest method. Bonds payable are reported on the balance sheets net of the applicable bond premiums.

L. Net Position

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

Net 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 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.

M. Power Generation Revenue

Power revenues are recognized pursuant to the terms and provisions of a Power Purchase Agreement with PG&E referred to as PG&E Standard Offer Number 4, dated July 12, 1984 (Agreement). Under the Agreement, which expired December 31, 2016, PG&E was to make monthly payments to the Authority for energy and capacity delivered to PG&E during on-peak, partial-peak, and off-peak periods. The Authority is to be paid for energy deliveries at prices equal to PG&E's full short-run avoided operating costs (SRAC) under the agreement, which are California Public Utility Commission-approved costs forming the basis of PG&E's published energy prices.

Under the Agreement, the Authority is also to be paid for firm capacity of 15,000 kw. To receive firm capacity payments, the firm capacity is to be delivered for all of the on-peak hours in PG&E's peak months of June, July, and August, as specified in the Agreement. Monthly firm capacity payments are based upon formulas established in the Agreement. In the event the Authority does not provide the contract capacity, the capacity payments are to be readjusted for the actual amount delivered to PG&E, which may require the Authority to reimburse PG&E for any prior months' overpayment.

The Agreement was amended in 1995 to amend Article 4, "Energy Price", Appendix E, "Firm Capacity", and to add certain operating limitations to the Agreement in order to resolve a longstanding dispute regarding the amount of firm capacity to which the Authority was entitled to under the Agreement.

The Authority entered into a new power purchase and sale agreement with the City of Santa Clara, California through its municipal electric utility, Silicon Valley Power, which begins after the current contract with PG&E ends on December 31, 2016. Under the agreement, the Authority agrees to sell the net electrical output and installed capacity of its power generating facility (the Southern 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 facility. Under the agreement, the Authority will receive a fixed contract price per megawatt hour (MWh) as summarized in Exhibit E of the agreement. The contract price includes scheduled increases ranging from 2.6% to 4.4% each year from 2017 through 2021 when the price is fixed through the remaining term of the agreement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Risk Management

The Authority 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. No significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended December 31, 2016 and 2015. 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.

NOTE 2 – CASH AND INVESTMENTS

A. Classification

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

	2016	2015
Deposits with financial institutions	$1,882,776	$1,260,260
Money market mutual funds	1,021,567	1,019,690
Local Agency Investment Fund (LAIF)	1,494	1,486
Total unrestricted cash and cash equivalents	2,905,837	2,281,436
Money market mutual funds		1,640,059
Total restricted cash and cash equivalents with fiscal agent	0	1,640,059
Total Cash and Investments	$2,905,837	$3,921,495

Cash and investments as of December 31, consisted of the following for disclosure under GASB 40:

	2016	2015
Cash and investments under GASB 40		
Deposits with financial institutions	$1,882,776	$1,260,260
Total cash and deposits	1,882,776	1,260,260
Money market mutual funds	1,021,567	2,659,749
Local Agency Investment Fund (LAIF)	1,494	1,486
Total investments	1,023,061	2,661,235
Total Cash and Investments	$2,905,837	$3,921,495

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. 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 Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

The Authority'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 of Deposits	5 years	30%	None
Repurchase Agreements	1 year	30%	None
Medium-Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

The Authority 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 the money market mutual fund reported as part of unrestricted cash and cash equivalents. The money market mutual fund is invested in highly rated U.S. agency securities. This limit does not apply to the investment in money market mutual funds reported as restricted cash and cash equivalents with fiscal agents, which was authorized by debt agreements as described below. The Authority will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

NOTE 2 – CASH AND INVESTMENTS (Continued)

C. *Investments Authorized by Debt Agreements*

Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The 2010 Revenue Refunding Bonds debt agreement contains certain provisions that address interest rate risk and credit risk, but not concentration of credit risk as follows:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Bankers Acceptances	None	None	None
Commercial Paper	None	None	None
Negotiable Certificates of Deposits	None	None	None
Investment agreements	None	None	None
Repurchase Agreements	1 year	None	None
Medium-Term Corporate Notes	3 years	None	None
Money Market Mutual Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

D. *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 Authority 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 Authority'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 Authority's investments (including investments held by the bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity at December 31, 2016:

		Remaining Maturity
	Total	12 Months or Less
Money Market Mutual Funds	$1,021,567	$1,021,567
LAIF	1,494	1,494
Total	$1,023,061	$1,023,061

NOTE 2 – CASH AND INVESTMENTS (Continued)

E. Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the Authority as of December 31, 2016:

Investments by Fair Value Level:	Level 1	Level 2	Total
Local Agency Investment Fund		$1,494	$1,494
Money Market Mutual Funds	$1,021,567		1,021,567
Total investments	$1,021,567	$1,494	1,023,061
Cash in banks and on hand			1,882,776
Total Cash and Investments			$2,905,837

Money market funds, classified in Level 1 of the fair value hierarchy are valued by HighMark Capital Management. The California Local Agency Investment Fund (LAIF) classified in Level 2 is valued based on the fair value factor provided by the Treasurer of the State of California, which is calculated as fair value divided by the amortized cost of the investment pool. These prices are obtained from various pricing sources by the custodian bank.

F. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

		Minimum	Ratings as of Year End	
	Total	Legal Rating	AAA/Aaa	Not Rated
Money Markety Mutual Funds	$1,021,567	AAA/Aaa	$1,021,567	
LAIF	1,494	N/A		$1,494
	$1,023,061		$1,021,567	$1,494

G. Concentration of Credit Risk

The investment policy of the Authority limits the amount that can be invested in any one issuer to the amounts specified by 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, U.S. Agency Securities and external investment pools.

NOTE 2 – CASH AND INVESTMENTS (Continued)

H. 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 Authority'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, 2016 and 2015, respectively, the carrying amounts of the Authority's deposits were $1,882,776 and $1,260,260, respectively, and the balances in financial institutions were $1,902,485 and $1,260,260, respectively. Of the balance in financial institutions at December 31, 2016 and 2015, $250,000 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 Authority.

I. 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, 2016 by all public agencies in LAIF is $73,731,837,865 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 Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority'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 3 - CAPITAL ASSETS

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

	Balance at January 1, 2016	Additions	Transfers	Balance at December 31, 2016
Capital assets not being depreciated:				
Construction in progress		$43,207	($39,812)	$3,395
		43,207	(39,812)	3,395
Capital assets being depreciated:				
Hydroelectric production facilities	$19,097,454		39,812	19,137,266
Conveyance tunnel	22,123,528			22,123,528
Roads and bridges	1,510,573			1,510,573
Other equipment	2,545,156			2,545,156
Total capital assets being depreciated, net	45,276,711		39,812	45,316,523
Accumulated depreciation:				
Hydroelectric production facilities	(10,260,546)	(243,034)		(10,503,580)
Conveyance tunnel	(6,523,901)	(221,235)		(6,745,136)
Roads and bridges	(450,401)	(16,314)		(466,715)
Other equipment	(2,342,105)	(26,349)		(2,368,454)
Total accumulated depreciation	(19,576,953)	(506,932)		(20,083,885)
Capital assets depreciated, net	25,699,758	(506,932)	39,812	25,232,638
Capital assets, net	$25,699,758	($463,725)		$25,236,033

	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015
Capital assets not being depreciated:				
Hydroelectric production facilities	$19,097,454			$19,097,454
Conveyance tunnel	22,123,528			22,123,528
Roads and bridges	1,510,573			1,510,573
Other equipment	2,555,398		($10,242)	2,545,156
Total capital assets being depreciated, net	45,286,953		(10,242)	45,276,711
Accumulated depreciation:				
Hydroelectric production facilities	(10,017,541)	($243,005)		(10,260,546)
Conveyance tunnel	(6,302,666)	(221,235)		(6,523,901)
Roads and bridges	(434,087)	(16,314)		(450,401)
Other equipment	(2,321,460)	(30,887)	10,242	(2,342,105)
Total accumulated depreciation	(19,075,754)	(511,441)	10,242	(19,576,953)
Capital assets depreciated, net	26,211,199	(511,441)		25,699,758
Capital assets, net	$26,211,199	($511,441)		$25,699,758

NOTE 4 – NONCURRENT LIABILITIES

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

	Balance at January 1, 2016	Repayments	Balance at December 31, 2016
2010 Revenue Refunding Bonds	$4,330,000	$4,330,000	
Total noncurrent liabilities	4,330,000	$4,330,000	
Unamortized bond premium	60,153		
Less: Current portion	(4,390,153)		
Due in more than one year			

	Balance at January 1, 2015	Repayments	Balance at December 31, 2015	Due within One Year
2010 Revenue Refunding Bonds	$6,925,000	($2,595,000)	$4,330,000	$4,330,000
Total noncurrent liabilities	6,925,000	($2,595,000)	4,330,000	4,330,000
Unamortized bond premium	125,733		60,153	60,153
Less: Current portion	(2,595,000)		(4,390,153)	$4,390,153
Due in more than one year	$4,455,733			

A. *Description of Debt*

On September 23, 2010, the Authority issued 2010 Revenue Refunding Bonds (the Bonds) in the amount of $16,400,000. The proceeds of the Bonds were used to refund the 2005 Note Payable from Bank of America, which previously refunded the debt used to construct the hydraulic turbine and generator in the vicinity of Sand Bar Flat Diversion Dam, together with the related diversion facility, conveyance tunnel, transmission line and access roads, bridges, land and improvements in 1982. The Bonds were secured by a lien on the net revenues of the Authority's electric system. Semi-annual principal payments of $1,090,000 to $2,165,000 and semi-annual interest payments of $43,300 to $236,400 were due on May 1 and November 1 from May 1, 2011 through November 1, 2016. Interest on the Bonds accrued at 4%.

The Bonds were subject to a reserve requirement at any date of the lesser of (i) 10% of the principal amounts of the Bonds, (ii) an amount equal to the maximum annual debt service payments payable to maturity of the Bonds, or (iii) 125% of the average annual debt service payments payable through maturity of the Bonds. The Authority maintained a minimum of 10% of the original bond amount of $1,640,000 in order to satisfy this covenant. The final bond matured on November 1, 2016 and the Authority had no debt outstanding as of December 31, 2016.

NOTE 5 – NET POSITION

A. *Commitments*

Commitments of unrestricted net position may be imposed by the Board of Commissioners 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 is a summary of committed net position balances at December 31:

	2016	2015
Maintenance reserve:		
For replacement and maintenance expenditures on water storage and delivery systems and hydroelectric generation facilities.	$20,267	$19,739
Operating reserve:	1,000,000	1,000,000
Total committed net position	$1,020,267	$1,019,739

The resolution establishing the maintenance reserve provides for increases in the reserve each year by an amount equal to the change in the Consumer Price Index (CPI). The operating reserve does not have a provision to increase the reserve based on the CPI.

Amounts in excess of the maintenance reserve and operating reserve, rounded to the nearest $200,000, may be transferred in equal shares to each Member District according to a Resolution of the Joint Boards of the Member Districts. The distributions are typically considered at the December board meeting.

NOTE 6 – DISTRIBUTIONS TO MEMBER DISTRICTS

The Authority had sufficient funds to provide cash distributions to Member Districts during the year ended December 31, 2016, however, the Member Districts requested the distributions be made in January 2017 and therefore these distributions were made at that time. The Authority did not provide any cash distributions to Member Districts during the year ended December 31, 2015 due to insufficient funds.

NOTE 7 - CONTINGENCIES

A. *Claims*

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

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

To the Commissioners
Tri-Dam Power Authority
Strawberry, California

We have audited, in accordance with the 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 statement of the Tri-Dam Power Authority (Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated April 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Authority's financial statements are free from 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*.

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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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze + Associates

Pleasant Hill, California
April 10, 2017