

**TRI-DAM PROJECT  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2016**

**PREPARED BY THE FINANCE DEPARTMENT**

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For the Year Ended December 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on Financial Statements*

We have audited the accompanying basic financial statements of the Tri-Dam Project (the Project) as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the Project'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 audit 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 Project'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 Project'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, 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.

## ***Change in Accounting Principle***

Management adopted the provisions of the following Governmental Accounting Standards Board Statement, which became effective during the year ended December 31, 2016, as discussed in Note 1R and Note 2 to the financial statements:

Statement No. 72 – *Fair Value Measurement and Application*

The change in accounting principle does not constitute a modification to our opinion.

## ***Emphasis of a Matter***

As discussed in Note 1S, the Project restated the basic financial statements for the year ended December 31, 2015 relating to the implementation of GASB 68.

The emphasis of this matter does not constitute a modification to our opinion.

## ***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.

## ***Supplementary***

The Supplemental 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 Supplemental 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 April 10, 2017, 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, 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.

***Prior Year Comparative Information***

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

*Marc + Associates*

Pleasant Hill, California  
April 10, 2017

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## 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, 2016 and 2015, and the Project'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 the financial statements, and the other additional information provided.

### **OPERATIONAL AND FINANCIAL HIGHLIGHTS**

- Power generation increased substantially as the California drought subsided during 2016, resulting in greater runoff from the Sierra Nevada snowpack. Power generation for the year totaled 498,000 megawatt hours (MWh), a significant improvement from 2015 total generation of 230,000 MWh.
- The substantial improvement in generation led to significantly greater operating revenues, which totaled \$33.8 million for the year, as compared to only \$15.3 million during 2015.
- Operating expenses were flat for the year at \$8.0 million. Excluding depreciation and amortization, operating expenses declined \$570,000 from the prior year.
- Nonoperating revenues improved from \$426,000 during 2015 to \$753,000 during 2016. The increase was primarily due to a grant of \$180,000 from the California State Parks Division of Boating and Waterways for the construction of a boat wash station at Tulloch Reservoir.
- Nonoperating expenses declined \$133,000 to \$1.59 million as a result of lower costs associated with river habitat studies and the related legal fees incurred to defend the Member Districts' water rights on the Stanislaus River.
- Total net position increased by \$9.04 million, from \$77.41 million at December 31, 2015, to \$86.46 million at December 31, 2016. The improvement is attributable to net revenues of \$24.96 million, net of distributions to the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts) of \$15.92 million.
- As a result of the improved hydrology and generation revenue, the Project resumed several large capital and maintenance projects that had previously been deferred because of the drought.

### **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 2016 and 2015 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.

In reviewing the financial statements, it should be noted that the Project's 2015 financial statements have been restated due to certain reclassifications and corrections made to the calculation of the Project's deferred outflows and deferred inflows related to the implementation of GASB Statements Nos. 68 and 71 during 2015. These reclassifications and corrections resulted in a non-cash reduction of \$1.26 million to pension expense for 2015.

### **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 requires 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 information regarding the Project's pension liability and other post-employment benefits, along with additional expense breakdown by each of the Project's facilities and administrative activities.

### **Internal Control Report**

The *Internal Control 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, 2016, 2015 and 2014.

	Condensed Balance Sheets				
	2016	2015 (As Restated)	Increase (Decrease)	2014	Increase (Decrease)
<b><u>Assets and Deferred Outflows</u></b>					
Current Assets	\$ 28,480,203	\$ 17,487,478	\$ 10,992,725	\$ 19,344,690	\$ (1,857,212)
Capital Assets, Net	62,948,188	64,830,835	(1,882,647)	65,609,741	(778,906)
Deferred Outflows	1,277,349	639,151	638,198	237,494	401,657
Total Assets & Deferred Outflows	<u>\$ 92,705,740</u>	<u>\$ 82,957,464</u>	<u>\$ 9,748,276</u>	<u>\$ 85,191,925</u>	<u>\$ (2,234,461)</u>
<b><u>Liabilities</u></b>					
Current Liabilities	\$ 651,086	\$ 846,020	\$ (194,934)	\$ 718,754	\$ 127,266
Noncurrent Liabilities	5,302,736	4,245,002	1,057,734	3,256,485	988,517
Deferred Inflows	296,517	454,599	(158,082)	1,047,486	(592,887)
Total Liabilities & Deferred Inflows	<u>6,250,339</u>	<u>5,545,621</u>	<u>704,718</u>	<u>5,022,725</u>	<u>522,896</u>
<b><u>Net Position</u></b>					
Investment in Capital Assets	62,948,188	64,830,835	(1,882,647)	65,609,741	(778,906)
Unrestricted	23,507,213	12,581,008	10,926,205	14,559,459	(1,978,451)
Total Net Position	<u>86,455,401</u>	<u>77,411,843</u>	<u>9,043,558</u>	<u>80,169,200</u>	<u>(2,757,357)</u>
Total Liabilities, Deferred Inflows & Net Position	<u>\$ 92,705,740</u>	<u>\$ 82,957,464</u>	<u>\$ 9,748,276</u>	<u>\$ 85,191,925</u>	<u>\$ (2,234,461)</u>

### **Assets and Deferred Outflows of Resources 2016 compared to 2015**

Current assets increased \$10.99 million during 2016, primarily due to a \$9.86 million increase in cash and investments. The increase in cash and investments was a result of strong generation revenue during the second half of 2016 relative to the second half of 2015. The Project typically makes semi-annual distributions of excess cash to the Member Districts each July and January, which has a significant impact on cash and investment balances. Current assets also rose as a result of a \$1.63 million increase in the power generation receivable from Silicon Valley Power, which was also due to stronger generation activity in December.

The increase in current assets was partially offset by a \$728,000 decline in amounts due from the Project's separate but related entity, Tri-Dam Power Authority (Authority). Amounts due from the Authority represent accrued labor costs for employees on loan from Tri-Dam Project and equipment rental. The Authority's financial position improved considerably during 2016, and the pay down of amounts due to the Project was accomplished in December 2016.

Other accounts receivable included in current assets and due to the Project in the normal course of business included \$334,000 due from Pacific Gas & Electric Company (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 little changed from the prior year.

Noncurrent assets represent the Project's capital assets, which decreased \$1.88 million, net of accumulated depreciation and amortization. Capital assets declined as a result of depreciation and amortization, in addition to the retirement of approximately \$1.00 million in assets determined by management to be obsolete and no longer in service, net of accumulated depreciation on these assets of \$875,000. The Project recorded a loss of \$125,000 on the retirement of these assets.

Capital assets also include the Project's Federal Energy Regulatory Commission (FERC) license, an intangible asset totaling \$6.77 million, net of accumulated amortization of \$1.44 million. The legal and administrative costs initially incurred to renew the Project's license from the FERC totaled \$3.32 million, and are being amortized on a straight line basis over an initial period of 40 years. The intangible FERC license also includes the net cost of the Beardsley Reservoir recreation improvements completed in 2014, which totaled \$4.89 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.

Deferred outflows of resources represent various components related to the Project's net pension liability as calculated by the California Public Employees' Retirement System (CalPERS). These components primarily represent the difference between projected and actual investment earnings on pension investments, and pension contributions made by the Project subsequent to the measurement date of June 30, 2016 (valuation date of June 30, 2015). Deferred outflows increased \$638,000 from the prior year, as restated. Somewhat similar to prepaid assets, these deferred outflows will mainly be recognized as an offset to the net pension liability for the year ended December 31, 2017.

#### **2015 compared to 2014**

Current assets declined by \$1.86 million during 2015, primarily due to a decrease of \$1.27 million in cash 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 Tri-Dam Power Authority. Amounts due from the Authority increased \$294,000 from the prior year, as management withheld reimbursements to Project in order to preserve the Authority's cash. The decline in cash and investments was also 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 power plant. The Donnells plant is the Project's largest, and annual maintenance is typically performed earlier in the year. Other accounts receivable due to the Project in the normal course of business included \$331,000 due from PG&E for headwater benefits.

Noncurrent (capital) assets decreased \$779,000 during 2015, net of accumulated depreciation and amortization. The biggest capital asset addition in 2015 was the purchase of land costing \$704,000 along the shore of Tulloch Reservoir in order to fulfill a FERC license requirement.

Deferred outflows of resources totaled \$639,000 as of December 31, 2015, an increase of \$402,000 from the prior year. The increase in deferred outflows were primarily due to changes in the Project's proportionate share of its CalPERS unfunded pension liability in relation to all other California government agencies participating in the same pension pool, and pension contributions made by the Project subsequent to the measurement date of June 30, 2015 (valuation date of June 30, 2014).

#### **Liabilities and Deferred Inflows of Resources**

##### **2016 compared to 2015**

The Project ended 2016 with total liabilities and deferred inflows of resources of \$6.25 million, an increase of \$705,000 from year-end 2015. Current liabilities, primarily various accounts payable and the current portion of compensated absences, totaled \$651,000, a decrease of \$195,000 from the prior year. Other current liabilities as of December 31, 2016 included the estimated current portion of accrued compensated absences (vacation and sick leave) totaling \$192,000, and \$90,000 due to the FERC for headwater benefits related to New Melones Dam, located upstream of the Project's Tulloch dam and powerhouse.

Noncurrent liabilities totaled \$5.30 million, and included the Project's unfunded pension liability of \$4.96 million. The net pension liability increased by \$1.04 million during 2016. The net pension liability is calculated by CalPERS, and is subject to a significant level of year-to-year volatility.

Other noncurrent liabilities consisted of the estimated noncurrent portion of compensated absences, which totaled \$178,000, and other postemployment benefits of \$165,000. Other postemployment benefits represent the actuarially determined cost of providing current and future health benefits for retirees.

Deferred inflows of resources represent various components related to the Project's net pension liability, including changes in the calculation methodologies and assumptions used by CalPERS. Deferred inflows of resources, all pension related, totaled \$297,000, a decline of \$158,000 versus year-end 2015, as restated.

#### **2015 compared to 2014**

The project ended 2015 with total liabilities and deferred inflows of \$5.55 million, an increase of \$523,000 from year-end 2014, primarily due to a \$961,000 increase in the Project's net pension liability, partially offset by a decline of \$593,000 in pension-related deferred inflows. 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 totaling \$222,000, and \$90,000 due to the FERC for headwater benefits.

Noncurrent liabilities totaled \$4.25 million, and primarily consisted of the Project's net pension liability of \$3.92 million, which increased \$961,000 from the end of 2014. The net pension liability was included 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. Other noncurrent liabilities consisted of the estimated noncurrent portion of compensated absences, which totaled \$189,000, and other postemployment benefits of \$137,000.

Deferred inflows of resources totaled \$455,000 as of year-end 2015, a decline of \$593,000 from the prior year.

#### **Net Position**

##### **2016 compared to 2015**

Net Position at the end of 2016 totaled \$86.46 million, an increase of \$9.04 million from the prior year. Net position at the end of 2016 was broken down between investment in capital assets of \$62.95 million, a decline of \$1.88 million, and unrestricted net position of \$23.51 million, an increase of \$10.93 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.

Net income (change in net position) exceeded discretionary cash distributions to the Member Districts for the first time in five years during 2016. Substantially more favorable hydrology and the related increase in generation revenue was the primary reason for the improvement.

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.

### 2015 compared to 2014

Net Position at the end of 2015 totaled \$77.41 million, a decline of \$2.76 million from the prior year. Net position at the end of 2015 was broken down between investment in capital assets of \$64.83 million, a decrease of \$779,000, and unrestricted net position of \$12.58 million, a decrease of \$1.98 million.

Discretionary cash distributions to the Member Districts during 2015 exceeded net income for the fifth year in a row. Distributions exceeded net income due to the ongoing California drought, which negatively impacted generation revenue. 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.

### 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 2016, 2015 and 2014.

	Condensed Statement of Revenues, Expenses and Changes in Net Position				
	2016	2015 (As Restated)	Increase (Decrease)	2014	Increase (Decrease)
Operating Revenues	\$ 33,800,302	\$ 15,302,362	\$ 18,497,940	\$ 15,460,554	\$ (158,192)
Operating Expenses	8,001,913	8,004,476	(2,563)	7,081,774	922,702
Net Operating Revenue (Expense)	25,798,389	7,297,886	18,500,503	8,378,780	(1,080,894)
Nonoperating Revenues	752,644	425,940	326,704	747,674	(321,734)
Nonoperating Expenses	1,589,299	1,722,183	(132,884)	1,304,248	417,935
Net Nonoperating Revenue (Expense)	(836,655)	(1,296,243)	459,588	(556,574)	(739,669)
Change in Net Position	24,961,734	6,001,643	18,960,091	7,822,206	(1,820,563)
Net Position, Beginning of Year as previously reported	77,411,843	80,169,200	(2,757,357)	84,886,822	(4,717,622)
Restatement				(3,818,791)	3,818,791
Net Position, Beginning of Year as Restated	77,411,843	80,169,200	(2,757,357)	81,068,031	(898,831)
Add: Contribution of land by Member Districts			-	602,963	(602,963)
Less: Distributions to Member Districts	(15,918,176)	(8,759,000)	(7,159,176)	(9,324,000)	565,000
Net Position, End of Year	\$ 86,455,401	\$ 77,411,843	\$ 9,043,558	\$ 80,169,200	\$ (2,757,357)

### Operating Revenues

#### 2016 compared to 2015

Generation revenues totaled \$33.47 million during 2016, more than double 2015 generation revenue of \$14.97 million. In addition to the improved water year, generation revenue benefited from the scheduled price increase for power as part of the Project's contract with the City of Santa Clara, California. Power generation during 2016 was approximately 12% above the Project's long-term historical average, totaling 498,000 MWh, as compared to average historical generation of approximately 445,000 MWh. Other operating revenue included headwater benefit fees from PG&E, which totaled \$334,000.

### **2015 compared to 2014**

Below average rain and snowfall negatively impacted power generation during 2015, resulting in slightly lower operating revenues of \$15.30 million, a decline of \$158,000 from the prior year. For 2015, generation totaled only 230,000 MWh, well below the Project's historical average. Operating revenue also included headwater benefit fees from PG&E, which totaled \$331,000.

### **Nonoperating Revenues**

#### **2016 compared to 2015**

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 2016, total nonoperating revenue increased \$327,000 to \$753,000, primarily as a result of a \$180,000 one-time grant from the California Department of Boating and Waterways, a \$49,000 increase in investment income and a \$26,000 increase in water sales.

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 2016, combined reimbursements for these activities totaled \$185,000, an increase of \$13,000 from 2015.

Water sales totaled \$133,000 during 2016, an increase of \$26,000 from the prior year. 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 Project 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 2016, rental income totaled \$94,000, up from \$80,000 in 2015. The increase was attributable to scheduled rent increases and additional communication site tenants.

Investment income increased \$49,000 to \$93,000 during 2016 as a result of higher investment balances and a general increase in market interest rates.

#### **2015 compared to 2014**

For 2015, nonoperating revenue declined \$322,000 to \$426,000, primarily as a result of back rent received from a communication site tenant in 2014 and one-time refunds from the California Independent System Operator and PG&E, both of which were also received in 2014.

Reimbursements relate to the operation and maintenance activities performed by Tri-Dam on behalf of SEWD and the USBR totaled \$171,000, a decrease of \$13,000 from the prior year.

Other nonoperating income included water sales, which were unchanged from 2014 and totaled \$107,000, and rental of equipment and facilities, which totaled \$80,000, down from \$134,000 during the prior year. Investment income declined slightly as the balance of investable funds decreased.

## **Operating Expenses**

### **2016 compared to 2015**

Total operating expenses remained relatively unchanged from the prior year at approximately \$8.0 million. Excluding depreciation and amortization, and the non-cash effects of GASB 68, 2016 operating expenses declined \$847,000 to \$5.27 million, from \$6.11 million in 2015. The decline was primarily attributable to a \$985,000 decline in maintenance costs as several large maintenance projects were completed in the prior year, partially offset by a \$174,000 increase in labor expense. The increase in labor costs was 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.

Depreciation and amortization expense increased \$568,000 as a result of a one-time adjustment to several large assets. Depreciation and amortization totaled \$2.49 million versus \$1.92 million in 2015. Also see the capital assets discussion later in this section.

### **2015 compared to 2014**

Operating expenses increased from \$7.08 million during 2014 to \$8.00 million during 2015, as restated. Non-labor related operating costs increased \$946,000 from 2014, primarily due to expenses for repainting the spill gates at the Beardsley and Donnell dams, replacing the roof at the Beardsley powerhouse, and new main feeder breakers for station service at the Donnell powerhouse. Wage and benefit costs, excluding additional pension expense related to GASB 68, declined by \$159,000 primarily as a result of several vacancies throughout the year. Depreciation and amortization expense totaled \$1.92 million, an increase of \$6,000 from the prior year.

## **Nonoperating Expenses**

### **2016 compared to 2015**

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. The Project expects to incur significant nonoperating expenses associated with river habitat studies for the foreseeable future. Nonoperating expenses totaled \$1.59 million during 2016, a decrease of \$133,000 from 2015 nonoperating costs of \$1.72 million. A decline of \$259,000 in river habitat costs was partially offset by an increase of \$43,000 in operation and maintenance costs associated with Goodwin Dam. The Project also incurred a net nonoperating loss of \$83,000 on the disposal of capital assets.

Goodwin Dam expenses are considered nonoperating expenses in the Project's financial statements since no power is generated at that facility and it is maintained by Tri-Dam for the benefit of the Member Districts and Stockton East Water District.

### **2015 compared to 2014**

Nonoperating expenses increased \$418,000 during 2015, totaling \$1.72 million, as a result of a significant increase in legal costs incurred in negotiating and defending flow requirements with various state and federal agencies having jurisdiction on the Stanislaus River. For 2015, these legal costs and the related river habitat studies and public education campaign expenses totaled \$1.45 million, an increase of \$543,000 from the prior year, partially offset by a \$31,000 reduction in costs associated with the operation and maintenance of Goodwin Dam. Nonoperating costs in 2014 also included a \$95,000 loss on the disposal of capital assets considered obsolete and no longer in service.



## CAPITAL ASSETS

The following table illustrates the Project's capital assets as of December 31, 2016 and 2015.

<u>CAPITAL ASSETS</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Land	\$ 1,500,800	\$ 1,503,600	\$ (2,800)
Construction in progress	533,878	23,798	510,080
Intangible asset - FERC license	8,213,938	8,213,938	-
Dams and power plants	87,826,845	88,675,065	(848,220)
Power plant equipment	5,779,426	5,709,320	70,106
Telemetry equipment	2,751,866	2,751,866	-
Buildings	947,193	977,153	(29,960)
Other equipment	2,800,818	2,765,503	35,315
Total Capital Assets	110,354,764	110,620,243	(265,479)
Less: accumulated depreciation	<u>(47,406,576)</u>	<u>(45,789,408)</u>	<u>(1,617,168)</u>
Net Capital Assets	<u>\$ 62,948,188</u>	<u>\$ 64,830,835</u>	<u>\$ (1,882,647)</u>

Capital assets net of accumulated depreciation decreased \$1.88 million to \$62.95 million at the end of 2016. The decline resulted from capital asset additions of \$737,000, regular depreciation of \$1.64 million, amortization of intangible capital assets of \$234,000, a one-time depreciation adjustment to several large assets totaling \$615,000, and net disposals of \$125,000. The one-time adjustment was made as a result of a management determination that the original expected lives on these assets were too long.

Capital asset additions included expenditures totaling \$227,000 for a system-wide radio upgrade project, and \$195,000 for the boat wash station at Tulloch Reservoir. Both projects were still in progress as of year-end. The Project also purchased two new vehicles during the year. Total capital assets classified as construction-in-progress as of year-end totaled \$534,000, versus \$24,000 as of December 31, 2015. Note C of the financial statements contains additional information regarding 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 Project to continue to generate power that will significantly exceed the levels seen in recent years. Unfortunately, the strong storms experienced in January and February have severely damaged several access roads, which will cause the Project to incur significant repair costs. Nonetheless, management expects net revenues to substantially exceed budgeted levels.

The Project also expects to complete several large capital improvement projects during 2017, the largest of which is the replacement of three generator step up transformers at the Donnells powerhouse. The cost of this project, which will also include a spare transformer, is expected to approximate \$2.3 million.

## **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](mailto:rdodge@tridamproject.com).

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

	2016	2015 (As Restated)
<b>ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>		
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents (Note 2)	\$14,854,258	\$6,640,852
Investments (Note 2)	10,524,897	8,877,050
Accounts receivable (Note 1G):		
Headwater benefit fees, PG&E	334,493	331,123
Power generation receivable	2,072,722	441,368
Services receivable, Tri-Dam Power Authority	85,724	813,310
Other	401,491	184,335
Accrued interest receivable	5,972	11,747
Prepaid expenses and other assets	200,646	187,693
Total Current Assets	28,480,203	17,487,478
Noncurrent Assets:		
Capital Assets (Note 3):		
Not depreciated	2,034,678	1,527,398
Depreciated, net		
Intangible asset- FERC license, net	6,772,425	7,005,958
Other capital assets depreciated, net	54,141,085	56,297,479
Total depreciated, net	60,913,510	63,303,437
Total Capital Assets	62,948,188	64,830,835
Total Assets	91,428,391	82,318,313
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related (Note 7)	1,277,349	639,151
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$92,705,740	\$82,957,464
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$196,984	\$395,394
Accrued salaries and benefits	63,878	52,223
Unearned revenues (Note 1J)	10,728	25,604
Deposits	96,911	60,911
Due to the Federal Energy Regulatory Commission	90,270	90,247
Compensated absences, current portion (Note 4)	192,315	221,641
Total Current Liabilities	651,086	846,020
Noncurrent Liabilities:		
Compensated absences, noncurrent portion (Note 4)	178,217	188,805
Other postemployment benefits (Note 4 & 8)	165,395	136,755
Net pension liability (Note 7)	4,959,124	3,919,442
Total Noncurrent Liabilities	5,302,736	4,245,002
Total Liabilities	5,953,822	5,091,022
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related (Note 7)	296,517	454,599
<b>NET POSITION (Note 1N)</b>		
Net investment in capital assets	62,948,188	64,830,835
Unrestricted	23,507,213	12,581,008
Total Net Position	86,455,401	77,411,843
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$92,705,740	\$82,957,464

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, 2016 AND 2015

	2016	2015 (As Restated)
<b>OPERATING REVENUES</b>		
Power generation revenues (Note 10)	\$33,465,809	\$14,971,239
Headwater benefit fees	334,493	331,123
Total Operating Revenues	<u>33,800,302</u>	<u>15,302,362</u>
<b>OPERATING EXPENSES</b>		
Operations	1,509,447	1,250,105
Maintenance	1,715,270	2,666,367
General and administrative	2,285,415	2,164,023
Depreciation and amortization (Note 3)	2,491,781	1,923,981
Total Operating Expenses	<u>8,001,913</u>	<u>8,004,476</u>
NET INCOME FROM OPERATIONS	<u>25,798,389</u>	<u>7,297,886</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Reimbursements	184,784	171,341
Water sales	133,246	106,953
Rental of equipment and facilities	93,946	79,596
Investment earnings	92,843	43,633
Other nonoperating revenue	247,825	24,417
River habitat studies	(1,191,330)	(1,450,228)
Goodwin Dam expenses	(315,179)	(271,955)
(Loss) gain on disposal of capital assets	(82,790)	
Total Nonoperating revenues (expenses)	<u>(836,655)</u>	<u>(1,296,243)</u>
CHANGE IN NET POSITION	24,961,734	6,001,643
NET POSITION , BEGINNING OF YEAR AS RESTATED	77,411,843	80,169,200
Less: distributions to Member Districts (Note 6)	(15,918,176)	(8,759,000)
NET POSITION, END OF YEAR	<u>\$86,455,401</u>	<u>\$77,411,843</u>

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

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

	2016	2015 (As restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers for power generation	\$31,834,455	\$15,813,127
Other operating receipts	331,123	331,206
Cash payments to suppliers for goods and services	(2,896,048)	(3,849,392)
Cash payments to employees for services	(2,536,891)	(2,372,846)
Cash flows from Operating Activities	26,732,639	9,922,095
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash distributions to Member Districts	(15,918,176)	(8,759,000)
Other net nonoperating revenues and expenses	(380,808)	(1,326,817)
Net Cash Used for Noncapital Financing Activities	(16,298,984)	(10,085,817)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(737,412)	(1,145,075)
Proceeds from sale of capital assets	39,932	
Net Cash Used for Capital and Related Financing Activities	(697,480)	(1,145,075)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investment securities	(22,569,569)	(9,635,554)
Proceeds from sales and maturities of investment securities	20,930,986	7,349,818
Interest received	115,814	40,699
Net Cash Used for Investing Activities	(1,522,769)	(2,245,037)
<b>NET CASH FLOWS</b>	8,213,406	(3,553,834)
Cash and cash equivalents at beginning of year	6,640,852	10,194,686
Cash and cash equivalents at end of year	\$14,854,258	\$6,640,852
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income from operations	\$25,798,389	\$7,297,886
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,491,781	1,923,981
Changes in operating assets and liabilities:		
Power generation receivable	(1,631,354)	\$841,888
Other receivables	507,060	(293,819)
Prepaid expenses and other assets	(12,953)	(58,710)
Deferred outflows/inflows of resources- pensions	(243,402)	56,193
Accounts payable	(198,410)	248,315
Accrued salaries and benefits	11,655	(115,023)
Unearned revenue	(14,876)	14,569
Unearned deposits	36,000	3,000
Due to FERC	23	(23)
Compensated absences	(39,914)	(31,379)
Other postemployment benefits	28,640	35,217
Cash Flows from Operating Activities	\$26,732,639	\$9,922,095
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:</b>		
Change in the fair value of investments		\$2,889

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

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**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 - 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.

**A. *Organization and Purpose***

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 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 commissioners (directors) as does the Project, 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.

**B. *Basis of Presentation***

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.

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**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 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.

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 and Stockton East Water District, which is a one-third owner of that dam. 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.

**D. *Budgetary Principals***

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.

**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 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, including assets of the types described above that are restricted, if any.



**TRI-DAM PROJECT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. *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.

**H. *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:

<u>Class of Capital Asset</u>	<u>Estimated Lives in Years</u>
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.

**I. *Deferred Outflows/Inflows of Resources***

In addition to assets and liabilities, the balance sheet may include 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 7.

**J. *Unearned Revenue***

Unearned revenues arise when resources are received in exchange transactions before the Project has a legal claim to them. Unearned revenues at December 31, 2016 and 2015 consisted of miscellaneous receipts for future services.

**TRI-DAM PROJECT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. *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.

**L. *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.

**M. *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 Project 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.

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. *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, 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.

**O. *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 agrees to sell the net electrical output and installed capacity of its power generating facilities (the Donnell Powerhouse, Beardsley Powerhouse and Tulloch 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 2016 and 2015 was \$67 and \$65 per MWh, respectively. The contract price includes scheduled increases ranging from 2.6% to 4.4% each year from 2016 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.

**P. *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, 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.

**Q. *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.

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**R. *New Accounting 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. The Project has implemented this Statement in fiscal year 2016.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. 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. The Project has implemented this Statement in fiscal year 2016.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*." This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This Statement is effective for fiscal years beginning after June 15, 2017. The Project will fully analyze the impact of this new Statement prior to the effective date listed above.

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. The Project has implemented this Statement in fiscal year 2016.

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 has implemented this Statement in fiscal year 2016.

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**S. Restatement**

The Project implemented GASB Statements No. 68 and 71 in fiscal year 2015. During fiscal year 2016, the Project discovered that, in the previous year, it incorrectly accounted for contributions as prepaids and did not calculate the deferred outflows and inflows of resources properly. As a result, the balances of prepaid expenses and other assets were overstated by \$89,630, deferred outflows of resources were understated by \$358,939, the net pension liability was understated by \$55, and deferred inflows of resources were overstated by \$993,711. As a result, the ending balance of net position was increased by \$1,262,965 in fiscal year 2015. In addition, the balances showing in the 2015 column in the financial statements have been reclassified to reflect the changes resulting from this restatement.

The balances showing in the 2015 column in the financial statements have been reclassified to reflect the changes resulting from this restatement.

**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
Cash and cash equivalents:		
Cash on hand	\$300	\$300
Deposits with financial institutions	14,798,433	6,403,872
Money market mutual funds	49,787	230,970
Local Agency Investment Fund (LAIF)	5,738	5,710
Total unrestricted cash and cash equivalents	14,854,258	6,640,852
Investments		
Investments held by Union Bank	10,524,897	8,877,050
Total investments	10,524,897	8,877,050
Total cash and investments	\$25,379,155	\$15,517,902

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

	2016	2015
Cash and investments under GASB 40		
Cash on hand	\$300	\$300
Deposits with financial institutions	14,798,433	6,403,872
Total cash and deposits	14,798,733	6,404,172
U.S. agency securities	10,174,396	7,994,244
Medium term corporate notes	350,501	882,806
Money market mutual funds	49,787	230,970
Local Agency Investment Fund (LAIF)	5,738	5,710
Total investments	10,580,422	9,113,730
Total cash and investments	\$25,379,155	\$15,517,902

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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 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 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 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 as of December 31, 2016.

***C. 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.

**TRI-DAM PROJECT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 2 – CASH AND INVESTMENTS (Continued)**

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, 2016:

	Total	Remaining Maturity	
		12 Months or Less	13 to 24 Months
U.S. Agency Securities	\$10,174,396	\$8,426,662	\$1,747,734
Medium-Term Corporate Notes	350,501	350,501	
Money Market Mutual Funds	49,787	49,787	
LAIF	5,738	5,738	
<b>Total</b>	<b>\$10,580,422</b>	<b>\$8,832,688</b>	<b>\$1,747,734</b>

**D. 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 as of December 31, 2016.

	Total	Minimum Legal Rating	Ratings as of Year End			
			AAA/Aaa	AA+/Aa1	A+/A1	Not Rated
U.S. Agency Securities	\$10,174,396	N/A		\$10,174,396		
Medium-Term Corporate Notes	350,501	A			\$350,501	
Money Market Mutual Funds	49,787	AAA/Aaa	\$49,787			
LAIF	5,738	N/A				\$5,738
	<b>\$10,580,422</b>		<b>\$49,787</b>	<b>\$10,174,396</b>	<b>\$350,501</b>	<b>\$5,738</b>

**E. 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, 2016:

Issuer	Investment Type	Amount
Federal Farm Credit Banks (FFCB)	U.S. Agency Securities	\$2,416,495
Federal Home Loan Banks (FHLB)	U.S. Agency Securities	7,757,901

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

***F. 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, 2016 and 2015, the carrying amounts of the Project's deposits were \$14,798,433 and \$6,403,872 and the balances in financial institutions were \$14,916,394 and \$6,504,046, respectively. Of the balances in financial institutions, \$250,000 at December 31, 2016 and 2015 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.

***G. 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, 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.



**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**H. Fair Value Hierarchy**

The Project 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 Project as of December 31, 2016:

Investments by Fair Value Level:	Level 1	Level 2	Total
U.S. Agency Securities			
Federal Home Loan Banks		\$7,757,901	\$7,757,901
Federal Farm Credit Banks		2,416,495	2,416,495
Medium-Term Corporate Notes		350,501	350,501
Local Agency Investment Fund		5,738	5,738
Money Market Mutual Funds	\$49,787		49,787
Total investments	\$49,787	\$10,530,635	10,580,422
Cash in banks and on hand			14,798,733
Total Cash and Investments			\$25,379,155

Money market funds, classified in Level 1 of the fair value hierarchy are valued by HighMark Capital Management. U.S. Agency Securities and Medium-Term Corporate Notes, classified in Level 2 of the fair value hierarchy are valued using one of the following: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, or significant other observable inputs. 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.

**TRI-DAM PROJECT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 3 – CAPITAL ASSETS**

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

	Balance at January 1, 2016	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2016
Capital assets not being depreciated:					
Land	\$1,503,600		(\$2,800)		\$1,500,800
Construction in progress	23,798	\$699,421		(\$189,341)	533,878
Total capital assets not being depreciated	<u>1,527,398</u>	<u>699,421</u>	<u>(2,800)</u>	<u>(189,341)</u>	<u>2,034,678</u>
Capital assets being depreciated:					
Intangible asset-FERC License	8,213,938				8,213,938
Dams and power plants	88,675,065		(848,220)		87,826,845
Power plant equipment	5,709,320	31,382	(24,577)	63,301	5,779,426
Telemetry equipment	2,751,866				2,751,866
Buildings	977,153		(29,960)		947,193
Other equipment	2,765,503	6,609	(97,334)	126,040	2,800,818
Total capital assets being depreciated	<u>109,092,845</u>	<u>37,991</u>	<u>(1,000,091)</u>	<u>189,341</u>	<u>108,320,086</u>
Accumulated depreciation/amortization:					
Intangible asset-FERC License	(1,207,980)	(233,533)			(1,441,513)
Dams and power plants	(38,340,591)	(1,215,398)	734,447		(38,821,542)
Power plant equipment	(1,750,653)	(580,022)	13,132		(2,317,543)
Telemetry equipment	(1,527,858)	(296,578)			(1,824,436)
Buildings	(730,320)	(23,740)	29,960		(724,100)
Other equipment	(2,232,006)	(142,510)	97,074		(2,277,442)
Total accumulated depreciation/amortization	<u>(45,789,408)</u>	<u>(2,491,781)</u>	<u>874,613</u>		<u>(47,406,576)</u>
Total capital assets being depreciated, net	<u>63,303,437</u>	<u>(2,453,790)</u>	<u>(125,478)</u>	<u>189,341</u>	<u>60,913,510</u>
Capital assets, net	<u>\$64,830,835</u>	<u>(\$1,754,369)</u>	<u>(\$128,278)</u>		<u>\$62,948,188</u>

	Balance at January 1, 2015	Additions	Disposals	Transfers & 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	<u>968,921</u>	<u>1,145,075</u>		<u>(586,598)</u>	<u>1,527,398</u>
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	<u>108,506,247</u>			<u>586,598</u>	<u>109,092,845</u>
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	<u>(43,865,427)</u>	<u>(1,923,981)</u>			<u>(45,789,408)</u>
Total capital assets being depreciated, net	<u>64,640,820</u>	<u>(1,923,981)</u>		<u>586,598</u>	<u>63,303,437</u>
Capital assets, net	<u>\$65,609,741</u>	<u>(\$778,906)</u>			<u>\$64,830,835</u>

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3 – CAPITAL ASSETS (Continued)**

***Intangible Assets – 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 4 – NONCURRENT LIABILITIES**

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

	Balance at January 1, 2016	Additions	Repayments	Balance at December 31, 2016	Due within One Year
Compensated absences	\$410,446	\$216,048	(\$255,962)	\$370,532	\$192,315
Other postemployment benefits	136,755	58,257	(29,617)	165,395	
	<u>\$547,201</u>	<u>\$274,305</u>	<u>(\$285,579)</u>	<u>\$535,927</u>	<u>\$192,315</u>
	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	
	<u>\$543,363</u>	<u>\$230,953</u>	<u>(\$227,115)</u>	<u>\$547,201</u>	<u>\$221,641</u>

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 5 – 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:

	<u>2016</u>	<u>2015</u>
Maintenance Reserve	\$4,500,000	\$3,100,000
Operating Reserve	6,000,000	6,000,000
Total committed net position	<u>\$10,500,000</u>	<u>\$9,100,000</u>

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. During 2016, \$84,000 of the maintenance reserve was spent to complete a capital project.

The operating reserve was established at \$6 million by Board resolution in a prior year.

**NOTE 6 – DISTRIBUTIONS TO MEMBER DISTRICTS**

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

	<u>2016</u>	<u>2015</u>
Oakdale Irrigation District	\$7,959,088	\$4,379,500
South San Joaquin Irrigation District	7,959,088	4,379,500
Total distributions to Member Districts	<u>\$15,918,176</u>	<u>\$8,759,000</u>

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 – PENSION PLANS**

**A. 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 CalPERS. The Project participates in the Miscellaneous Risk Pool and the following rate Plans:

- Miscellaneous Plan
- PEPRM 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](http://www.calpers.ca.gov).

**B. 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 PEPRM 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:

	2016		2015	
	Miscellaneous Plan (Prior to January 1, 2013)	PEPRM Miscellaneous Plan (On or after January 1, 2013)	Miscellaneous Plan (On or after January 1, 2013)	PEPRM Miscellaneous Plan (On or after January 1, 2013)
Hire date				
Benefit formula	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	2.0% - 2.50%	1.0% - 2.5%	2.0% - 2.50%	1.0% - 2.5%
Required employee contribution rates:				
July 1 to December 31	8.000%	6.237%	8.000%	6.250%
January 1 to June 30	7.944%	6.555%	8.000%	6.500%
Required employer contribution rates:				
July 1 to December 31	15.701%	6.250%	17.451%	6.237%
January 1 to June 30	10.069%	6.555%	15.701%	6.250%

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

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 – PENSION PLANS (Continued)**

**C. 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:

	2016			2015		
	Miscellaneous Plan	PEPRA Miscellaneous Plan	Total	Miscellaneous Plan	PEPRA Miscellaneous Plan	Total
Contributions - employer	\$395,020	\$29,553	\$424,573	\$444,293	\$15,869	\$460,162
Contributions - employee (paid by employer)	106,754		106,754	115,003		115,003
	<u>\$501,774</u>	<u>\$29,553</u>	<u>\$531,327</u>	<u>\$559,296</u>	<u>\$15,869</u>	<u>\$575,165</u>

**D. 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:

	2016	2015 (As Restated)
	Proportionate Share of Net Pension Liability	Proportionate Share of Net Pension Liability
Miscellaneous Plan	<u>\$4,959,124</u>	<u>\$3,919,442</u>
Total Net Pension Liability	<u>\$4,959,124</u>	<u>\$3,919,442</u>

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 – PENSION PLANS (Continued)**

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, 2016 and 2015 is measured as of June 30, 2016 and 2015, 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, 2015 and 2014 rolled forward to June 30, 2016 and 2015, 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:

	2016	2015
	Miscellaneous Plan	Miscellaneous Plan
Proportionate - June 30, 2015	0.142863%	
Proportionate - June 30, 2016	0.142750%	
Change - Increase (Decrease)	<u>-0.000113%</u>	
Proportionate - June 30, 2014		0.119699%
Proportionate - June 30, 2015		0.142863%
Change - Increase (Decrease)		<u>0.023164%</u>

For the years ended December 31, 2016 and 2015 the Project recognized pension expense of \$774,730 and \$541,728 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:

Miscellaneous Plan:	2016		2015 (As Restated)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$324,576		\$292,232	
Differences between actual and expected experience	10,553	(\$3,137)	21,388	
Changes in assumptions		(129,535)		(\$202,356)
Differences between the employer's contributions and the employer's proportionate share of contributions		(163,845)		(150,799)
Change in employer's proportion	268,035		325,531	
Net differences between projected and actual earnings on plan investments	674,185			(101,444)
Total	<u>\$1,277,349</u>	<u>(\$296,517)</u>	<u>\$639,151</u>	<u>(\$454,599)</u>

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 – PENSION PLANS (Continued)**

The \$324,576 and \$292,232 reported as deferred outflows of resources related to contributions subsequent to the measurement date at December 31, 2016 and 2015 will be recognized as a reduction of the net pension liability in the years ended December 31, 2017 and 2016, 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	2016	2015
2016		(\$74,640)
2017	\$54,561	(76,398)
2018	89,469	(86,312)
2019	216,872	129,670
2020	295,354	
	\$656,256	(\$107,680)

**E. Actuarial Assumptions**

The total pension liabilities in the June 30, 2015 and 2014 actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

	2016	2015
Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.50%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.2% - 12.2% (1)	3.2% - 12.2% (1)
Investment Rate of Return	7.5	7.65%
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, 2015 and June 30, 2014 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.

**F. Discount Rate**

The discount rates used by CalPERS to measure the total pension liability were 7.5% and 7.65% in the June 30, 2015 and 2014 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.



**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 – PENSION PLANS (Continued)**

In December 2016, CalPERS' Board of Directors voted to lower the discount rate from 7.5% to 7.0% over the next three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates beginning in fiscal year 2019 and result in increases to the normal costs and unfunded actuarial liabilities.

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 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.

Asset Class	2016			2015		
	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 1 - 10(b)	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 1 - 10(b)
Global Equity	51.0%	5.25%	5.71%	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	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%	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%	2.0%	4.50%	5.09%
Liquidity	1.0%	-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.

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 7 – PENSION PLANS (Continued)**

**G. *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 one-percentage point lower or one-percentage point higher than the current rate:

	2016	2015
	Miscellaneous Plan	Miscellaneous Plan
1% Decrease	6.65%	6.65%
Net Pension Liability	\$7,492,137	\$6,387,416
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$4,959,124	\$3,919,442
1% Increase	8.65%	8.65%
Net Pension Liability	\$2,865,715	\$1,881,843

**H. *Pension Plan Fiduciary Net Position***

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLAN**

**A. 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.

**B. 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.

**C. 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:

	2016	2015
Annual required contribution (ARC)	\$57,503	\$52,575
Interest on the Net OPEB Obligation	753	597
Annual OPEB cost	58,256	53,172
Contributions made for current year premiums	(29,616)	(17,955)
Increase in net OPEB obligation	28,640	35,217
Net OPEB obligation beginning of year	136,755	101,538
Net OPEB obligation (asset) - end of year	\$165,395	\$136,755

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 8 – OTHER POST EMPLOYMENT 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	Annual OPEB Cost	% of OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$48,949	41.53%	\$101,538
12/31/2015	53,172	33.77%	136,755
12/31/2016	58,256	50.84%	165,395

**D. Funding Status and Funding Progress**

The funded status of the Plan was as follows as of December 31:

	2016	2015
Actuarial accrued liability (AAL)	(\$367,021)	(\$316,059)
Actuarial value of plan assets	0	0
Unfunded actuarial accrued (liability) asset (UAAL)	(\$367,021)	(\$316,059)
Funded ratio (actuarial value of plan assets/ AAL)	0.00%	0.00%
Covered payroll (Active plan members)	\$2,361,816	\$1,936,368
UAAL as a percentage of covered payroll	-15.54%	-16.32%

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.

**E. 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, 2016 and 2015 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.

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLAN (Continued)**

The actuarial assumptions in 2016 include health premium increases of 5.8% to 11.9%, a 3.78% investment rate of return and an 83.3% to 100% probability of remaining employed until retirement. 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 following assumptions were used for both 2016 and 2015: 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, 2016 and 2015, respectively.

**NOTE 9 – CONTINGENCIES AND COMMITMENTS**

***Regulatory***

***Bay Delta Water Quality Standards*** - The State Water Resources Control Board continues to 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. The State Water Resources Control Board is presently working on an amendment to the 2006 plan. The draft plan would require the bypass or release of additional water from 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 and diverted by water agencies such as Oakdale Irrigation District and South San Joaquin Irrigation District. Therefore the amended plan has the potential to negatively impact the Project's power generating activities on the Stanislaus River. It is expected that the State Water Board will adopt the amended Water Quality Control Plan in 2017. Implementation of the plan is expected to take up to five years.

***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 (NMFS), a division of the National Oceanic and Atmospheric Administration. 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 the multi-year drought depleted the volume of water stored at New Melones Reservoir and impacted the water available to the Member Districts under the 1988 Agreement and Stipulation during 2012 through 2015. 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 USBR has re-initiated consultation with NMFS regarding the Biological Opinions for the long term operation of the Central Valley Project and State Water Project. This includes New Melones. Oakdale Irrigation District and South San Joaquin Irrigation District are cooperating agencies in the re-consultation. Until the re-consultation is completed, the existing Biological Opinion is in place, including the existing flow schedule.

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.

**TRI-DAM PROJECT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 10 – SUBSEQUENT EVENTS**

During January and February 2017, Tri-Dam measured nearly 43 inches of precipitation at its Beardsley powerhouse, by far the greatest two-month total since the Project began keeping records in 1959. The heavy storms caused extensive washout or mud and rock slide damage to several critical access roads, rendering them impassable. As a result, Project operations and maintenance personnel have been required to hike a portion of the way or be transported via helicopter to gain access to several facilities, including the Donnells powerhouse and dam. Working in conjunction with the U.S. Forest Service, repairs to these roads are currently under way. The Project expects to incur significant costs to cut alternate routes and/or repair these roads to an acceptable condition. The storms also caused large amounts of debris to accumulate in the Project's upper-works reservoirs, which will also necessitate additional cleanup costs.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TRI-DAM PROJECT**

**REQUIRED SUPPLEMENTARY INFORMATION  
AS OF DECEMBER 31, 2016**

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

	<u>2016</u>	<u>2015 (As Restated)</u>	<u>2014 (As Restated)</u>
Proportionate of the net pension liability	0.142750%	0.142863%	0.119699%
Proportionate share of the net pension liability	\$4,959,124	\$3,919,442	\$2,958,335
Covered - employee payroll	\$2,361,816	\$1,936,368	\$1,943,487
Proportionate share of the net pension liability as a percentage of covered payroll	209.97%	202.41%	152.22%
Plan fiduciary net position	\$10,923,476,287	\$10,896,036,068	\$10,639,461,174
Plan fiduciary net position as a percentage of the total pension liability	73.64%	79.89%	83.03%

**Notes to Schedule:**

**Changes in Benefit Terms:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015 (for 2016), 2014 (for 2015) and 2013 (for 2014) as they have minimal cost impact.

**Changes in assumptions.** None

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



**TRI-DAM PROJECT**

**REQUIRED SUPPLEMENTARY INFORMATION  
AS OF DECEMBER 31, 2016**

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

Fiscal Year Ended December 31,	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution (actuarially determined)	\$424,574	\$460,162	\$326,279
Contributions in relation to the actuarially determined contributions	<u>(424,574)</u>	<u>(460,162)</u>	<u>(326,279)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
 Covered payroll	 \$2,361,816	 \$1,936,368	 \$1,943,437
 Contributions as a percentage of covered - employee payroll	 17.98%	 23.76%	 16.79%
 <b>Notes to Schedule</b>			
Valuation date:	6/30/2015	6/30/2014	6/30/2013

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% (2016 and 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 and 2016); 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.

**Changes in assumptions.** None

\* GASB Statement No. 68 was implemented during the year ended December 31, 2014. No Information was available prior to this date.

**TRI-DAM PROJECT**

**REQUIRED SUPPLEMENTARY INFORMATION  
AS OF DECEMBER 31, 2016**

**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 (b-a)	Fundin g Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered ((b-a)/c)
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%
December 31, 2016	-	367,021	367,021	0.00%	2,361,816	15.54%

**OTHER SUPPLEMENTARY INFORMATION**

TRI-DAM PROJECT  
SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS  
MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u> (As Restated)
Donnells Facility:		
Operations		
Supervision wages and benefits	\$27,914	\$22,247
Hydraulic wages and benefits	14,101	8,729
Electric wages and benefits	272,572	225,382
Other wages and benefits	1,899	1,324
Supplies and materials	18,501	46,462
Total Operations	<u>334,987</u>	<u>304,144</u>
Maintenance		
Supervision wages and benefits	41,105	10,098
Structures wages and benefits	39,080	4,324
Reservoirs and dams wages and benefits	50,533	17,173
Electrical plant wages and benefits	119,090	64,601
Other wages and benefits	37,058	46,913
High voltage wages and benefits	2,371	
Communications and security wages and benefits	9,752	11,302
Supplies and materials	103,402	716,103
Total Maintenance	<u>402,391</u>	<u>870,514</u>
Total Donnells Facility	<u>737,378</u>	<u>1,174,658</u>
Beardsley Facility:		
Operations		
Supervision wages and benefits	31,677	24,745
Hydraulic wages and benefits	22,443	19,170
Electric wages and benefits	200,457	187,298
Other wages and benefits	26,736	3,744
Supplies and materials	7,341	18,135
Total Operations	<u>288,654</u>	<u>253,092</u>
Maintenance		
Supervision wages and benefits	116,550	159,634
Structures wages and benefits	52,600	42,433
Reservoirs and dams wages and benefits	37,188	63,289
Electrical plant wages and benefits	67,696	88,695
Other wages and benefits	43,916	38,697
High voltage wages and benefits	872	1,968
Communications and security wages and benefits	10,692	53,582
Supplies and materials	237,642	631,181
Total Maintenance	<u>567,156</u>	<u>1,079,479</u>

(Continued)

TRI-DAM PROJECT  
SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS  
MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2016 and 2015

	2016	2015 (As Restated)
General and Administrative		
USFS resource management support	\$91,352	\$59,122
Total General & Administrative	91,352	59,122
Total Beardsley Facility	947,162	1,391,693
Tulloch Facility:		
Operations		
Supervision wages and benefits	150,979	118,220
Hydraulic wages and benefits	22,422	10,876
Electric wages and benefits	310,757	241,403
Other wages and benefits	2,350	948
Supplies and materials	9,153	8,343
Total Operations	495,661	379,790
Maintenance		
Supervision wages and benefits	15,659	57,378
Structures wages and benefits	25,456	18,137
Reservoirs and dams wages and benefits	15,593	40,583
Electrical plant wages and benefits	156,714	126,256
Other wages and benefits	72,250	90,579
High voltage wages and benefits	54	
Communications and security wages and benefits	17,034	11,524
Supplies and materials	97,178	52,803
Total Maintenance	399,938	397,260
General and Administrative		
Supplies and Materials	14,656	7,657
Headwater benefit assessment	90,350	90,270
Other	8,097	8,128
Total General and Administrative	113,103	106,055
Total Tulloch Facility	1,008,702	883,105
Mt Elizabeth Facility		
Operations		
Supplies and materials	13,582	11,554
Maintenance		
Supervision wages and benefits	205	28
Structures wages and benefits	2,097	326
Other wages and benefits	189	2,317
Communications and security wages and benefits	9,066	14,215
Supplies and materials	610	1,072
Total Maintenance	12,167	17,958
Total Mt. Elizabeth Facility	25,749	29,512

(Continued)

TRI-DAM PROJECT  
SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS  
MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u> (As Restated)
Strawberry Peak Facility:		
Operations		
Supplies and materials	\$10,611	\$7,956
Maintenance		
Supervision wages and benefits	18,320	18,536
Structures wages and benefits	5,776	486
Other wages and benefits	3,086	839
Communications and security wages and benefits	9,600	6,639
Supplies and materials	1,583	93
Total Maintenance	<u>38,365</u>	<u>26,593</u>
Total Strawberry Peak	<u>48,976</u>	<u>34,549</u>
Operations Center		
Operations		
Supervision wages and benefits	23,804	23,287
Electric wages and benefits	169,078	132,827
Supplies and materials	5,423	4,228
Total Operations	<u>198,305</u>	<u>160,342</u>
Maintenance		
Structures wages and benefits	631	1,136
Other wages and benefits	1,545	4,413
Communications and security wages and benefits	34,261	43,689
Supplies and materials	1,908	1,505
Total Maintenance	<u>38,345</u>	<u>50,743</u>
Total Operations Center	<u>236,650</u>	<u>211,085</u>
Service Center Facilities		
Operations		
Hydraulic wages and benefits	<u>          </u>	<u>          </u>
Total Operations	<u>          </u>	<u>          </u>
Maintenance		
Structures wages and benefits	1,865	196
Supplies and materials	234,552	200,976
Total Maintenance	<u>236,417</u>	<u>201,172</u>
Total Service Center	<u>236,417</u>	<u>201,172</u>
Division Point Facility:		
Operations:		
Supervision wages and benefits	23,804	22,552
Hydraulic wages and benefits	26,971	16,658
Electric wages and benefits	114,078	91,565
Supplies and materials	2,794	2,452
Total Operations	<u>167,647</u>	<u>133,227</u>

(Continued)

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS  
MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u> (As Restated)
Maintenance		
Supervision wages and benefits		\$828
Structures wages and benefits	\$227	439
Reservoirs and dams wages and benefits	3,716	7,068
Other wages and benefits	4,494	2,623
Communications and security wages and benefits	5,238	5,614
Supplies and materials	6,816	6,076
Total Maintenance	<u>20,491</u>	<u>22,648</u>
Total Division Point	<u>188,138</u>	<u>155,875</u>
Total Operations and Maintenance	<u>3,224,717</u>	<u>3,916,472</u>
Overall General and Administrative:		
Outside services	318,867	403,234
Administrative wages and benefits	703,717	620,578
Property insurance	333,917	342,746
FERC license fees	207,043	137,048
Safety fees and expense	152,924	179,715
Other wages and benefits-mobile equip. operation	110,208	69,088
Streamgaging	61,126	67,969
Miscellaneous	16,600	13,968
Utilities	36,008	31,564
Meals allowance and travel expense	22,346	25,655
Telephone, internet, data links	49,783	52,480
Office supplies and expense	30,009	30,983
Computer supplies	6,474	6,737
County taxes	25,512	10,441
Professional organizations	6,426	6,640
Total Overall General and Administrative	<u>2,080,960</u>	<u>1,998,846</u>
Total General and Administrative	<u>2,285,415</u>	<u>2,164,023</u>
Depreciation and Amortization		
Depreciation on capital assets	2,258,249	1,690,449
FERC relicensing amortization	233,532	233,532
Total Depreciation and Amortization	<u>2,491,781</u>	<u>1,923,981</u>
TOTAL OPERATING EXPENSES	<u>\$8,001,913</u>	<u>\$8,004,476</u>
SUMMARY OF OPERATING EXPENSES BY TYPE		
Operations	\$1,509,447	\$1,250,105
Maintenance	1,715,270	2,666,367
General and administrative	2,285,415	2,164,023
Depreciation and amortization	<u>2,491,781</u>	<u>1,923,981</u>
TOTAL OPERATING EXPENSES	<u>\$8,001,913</u>	<u>\$8,004,476</u>

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**COMPLIANCE REPORT**

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**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 Board of Directors  
Tri-Dam Project  
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 Project (the Project), 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 Project'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 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 Project'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 Project'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*.

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

*Mazz + Associates*

Pleasant Hill, California  
April 10, 2017