TRI-DAM PROJECT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018

PREPARED BY THE FINANCE DEPARTMENT

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Table of Contents

Page

FINANCIAL SECTION

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Tri-Dam Project (the Project) as of and for the years ended December 31, 2019 and 2018 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 opinions.

Opinions

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, 2019 and 2018, and the respective changes in the financial positions and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Project's basic financial statements. The Other Supplemental Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2020, 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.

Maze + Associates

Pleasant Hill, California
April 13, 2020

TRI-DAM PROJECT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the Tri-Dam Project's (Project) financial position as of December 31, 2019 and 2018, and the Project's financial performance for the years then ended. Condensed financial information for 2017 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 revenue improved considerably during 2019 versus 2018, with total generation increasing to 512,000 megawatt hours (MWh), from 294,000 MWh in 2018. The increase in generation was a result of greater precipitation and snowpack, along with the negative impact of two significant unplanned outages during 2018.
- The increase in generation led to significantly greater operating revenues, which totaled $39.7 million for the year, as compared to $21.7 million during 2018. Operating revenues also improved due to a $3 per MWh increase in price, in accordance with the Project's power purchase agreement with the City of Santa Clara, California.
- Operating expenses totaled $11.9 million, an increase of $2.6 million from the prior year. The increase was primarily attributable to the cost of the first phase of repairs to the Beardsley Afterbay Dam, which totaled $1.8 million.
- Nonoperating revenues totaled $3.4 million, or $1.6 million more than 2018 nonoperating revenues of $1.8 million. The Project received $1.6 million in insurance proceeds during 2019 as settlement for two related plant failures that occurred in 2018.
- Nonoperating expenses increased to $2.6 million versus $1.9 million in 2018, as increased costs were incurred for river habitat studies and the related legal fees to defend the Oakdale and South San Joaquin Irrigation Districts' (the Districts) water rights on the Stanislaus River.
- Total net position rose by $10.3 million, from $80.3 million December 31, 2018, to $90.7 million at December 31, 2019.
- In November 2019, the Project's Board of Directors appointed Jarom Zimmerman as the new general manager. Mr. Zimmerman previously served as manager of the Fryingpan-Arkansas hydroelectric project in Twin Lakes, Colorado.

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 2019 and 2018 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.

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 be 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 cash distributions to the 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, 2019, 2018 and 2017.

	Condensed Balance Sheets				
	2019	2018	Increase (Decrease)	2017	Increase (Decrease)
Assets and Deferred Outflows					
Current Assets	$ 27,015,049	$ 12,282,763	$ 14,732,286	$ 23,156,234	$ (10,873,471)
Noncurrent Investments	6,762,622	8,788,768	(2,026,146)	8,795,327	(6,559)
Capital Assets, Net	62,001,043	63,334,217	(1,333,174)	64,082,991	(748,774)
Deferred Outflows	3,095,459	4,182,070	(1,086,611)	1,498,764	2,683,306
Total Assets & Deferred Outflows	$ 98,874,173	$ 88,587,818	$ 10,286,355	$ 97,533,316	$ (8,945,498)
Liabilities					
Current Liabilities	$ 1,086,064	$ 886,106	$ 199,958	$ 1,138,336	$ (252,230)
Noncurrent Liabilities	4,548,255	7,097,221	(2,548,966)	6,164,420	932,801
Deferred Inflows	2,576,399	270,021	2,306,378	277,700	(7,679)
Total Liabilities & Deferred Inflows	8,210,718	8,253,348	(42,630)	7,580,456	672,892
Net Position					
Investment in Capital Assets	62,001,043	63,334,217	(1,333,174)	64,082,991	(748,774)
Unrestricted	28,662,412	17,000,253	11,662,159	25,869,869	(8,869,616)
Total Net Position	90,663,455	80,334,470	10,328,985	89,952,860	(9,618,390)
Total Liabilities, Deferred Inflows & Net Position	$ 98,874,173	$ 88,587,818	$ 10,286,355	$ 97,533,316	$ (8,945,498)

Note: The Project's net position was restated at the beginning of 2018 due to GASB 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions

Assets and Deferred Outflows of Resources
2019 compared to 2018

Current assets as of yearend totaled $27.0 million, an increase of $14.7 million from 2018 yearend current assets of $12.3 million. The Project enjoyed strong power generation cash receipts during 2019 as a result of a good water year, an improved price per MWh, and minimal plant down time. Power generation receipts totaled $37.7 million, or $14.0 million more than 2018 power generation receipts of $23.7 million. The Project also received $1.6 million in insurance proceeds related to the Donnells plant failures of 2018, and additional FEMA disaster receipts of $761,000 stemming from storm damaged roads incurred in 2017, largely offset by cash payments totaling $1.8 million for the Beardsley Afterbay phase one repairs.

Current assets also increased because of greater generation during the month of December relative to the prior year, which resulted in a generation receivable totaling $2.4 million, or $1.6 million greater than at December 2018.

Other accounts receivable included in current assets and owed to the Project in the normal course of business included $357,000 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 each year for inflation, and increased 1.5% from the prior year.

Noncurrent investments represent the Project's investment securities maturing in more than one year, and decreased $2.0 million. The Project did not purchase any investment securities during 2019.

Capital assets, net of disposals and accumulated depreciation and amortization, decreased $1.3 million from 2018. Capital asset additions totaled $805,000, disposals net of accumulated depreciation totaled $67,000, and normal depreciation and amortization totaled $2.1 million.

Capital assets also include the Project's Federal Energy Regulatory Commission (FERC) license, an intangible asset, which totaled $6.1 million, net of accumulated amortization of $2.1 million. The legal and administrative costs initially incurred to renew the Project's license from the FERC totaled $3.3 million, and are being amortized on a straight-line basis 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 $4.9 million. The improvements were paid for by the Project, but remain the property of the United States Department of Agriculture, Forest Service. Upon completion, the Forest Service resumed responsibility for the ongoing operation and maintenance of the improvements.

Deferred outflows of resources represent various adjustments related to the Project's net pension liability, as calculated by the California Public Employees' Retirement System (CalPERS), and include changes in assumptions, differences between projected and actual investment earnings on pension investments, and pension contributions made by the Project subsequent to the measurement date of June 30, 2019. Deferred outflows of resources, all pension related, totaled $3.1 million at the end of 2019, versus $4.2 million at the end of 2018. The decline in deferred outflows was primarily attributable to a $3.0 million payment made in the second half of 2018 to pay down the Project's net pension liability. The 2019 updated pension calculation removed that payment from deferred outflows and applied it as reduction to the pension liability.

2018 compared to 2017

Current assets decreased considerably during 2018, from $23.2 million at December 31, 2017, to $12.3 million at December 31, 2018. The decline was due to lower generation cash flows, as well as the timing of cash distribution to the Districts. The Project enjoyed strong cash flow during 2017, but made a large distribution of that cash to the Districts in January 2018. The Project typically makes semi-annual distributions of excess cash to the Districts each January and July, and the January distribution is a function of cash flow experienced during the second half of the prior year. Current assets were also lower because of lower generation during the month of December relative to the prior year, which resulted in a $2.4 million lower generation receivable versus December 2017.

Capital assets, net of accumulated depreciation and amortization, decreased $749,000 from 2017. Capital asset additions totaled $1.3 million, while depreciation and amortization totaled $2.0 million. The largest capital asset additions included the purchase of heavy equipment, a control center upgrade at the Tulloch powerhouse, a generator management relays upgrade, also at the Tulloch powerhouse.

Deferred outflows of resources, all pension related, totaled $4.2 million at the end of 2018, versus $1.5 million at the end of 2017. The substantial increase was attributable to the previously mentioned $3.0 million payment made in the second half of 2018 to pay down the Project's net pension liability. Based upon modeling provided by CalPERS, it is anticipated that this payment will save the Project approximately $4.0 million in interest costs over the lives of the corresponding pension bases.

Liabilities and Deferred Inflows of Resources

2019 compared to 2018

Total liabilities and deferred inflows of resources were little changes from the prior year, and totaled $8.2 million at December 31, 2019. Current liabilities increased $200,000, primarily due to an increase in accounts payable and the timing of salary and wage payments in the normal course of business.

Noncurrent liabilities were primarily comprised of the Project's net pension liability valued at $3.0 million, and other post-employment benefits valued at $1.4 million. The net pension liability declined nearly $2.7 million from the prior year, primarily as a result of the additional pay down in the second half of 2018, adjusted for the updated valuation of June 30, 2019. The net pension liability is calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and is derived from assumptions and methodologies developed by CalPERS. The assumptions when compared to actual experience can introduce significant year-to-year volatility in the calculation of this liability and corresponding non-cash pension expense.

Deferred inflows of resources represented 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 $2.6 million, an increase of $2.3 million from the prior year. The large increase in deferred inflows was primarily attributable to an increase in Tri-Dam's proportionate share of total deferred inflows relative to all other participating agencies within the plan. See Note 7 – Pension Plans, for additional information.

2018 compared to 2017
Total liabilities and deferred inflows of resources totaled $8.3 million as of December 31, 2018, an increase of $673,000 from the prior year. Current liabilities declined $252,000, while noncurrent liabilities and deferred inflow of resources increased by $925,000. The decline in current liabilities was primarily due to a decline in accounts payable in the normal course of business, while the increase in noncurrent liabilities was a result of a substantial increase in other post-employment benefits (OPEB). The increase in OPEB was a result of the implementation of GASB 75, which is a change in how post-employment benefits are valued and accounted for in the financial statements of governmental agencies. The net effect to the Project was a non-cash increase of $986,000 in the Project's OPEB liability versus the prior year. In accordance with GASB 75, the Project did not restate its 2017 financial position, but did restate the 2018 opening net position. See Note 8 – Other Post-Employment Benefits, for additional information.

The Project's largest single liability remained the net pension liability, which totaled $5.7 million as of December 31, 2018. Deferred inflows of resources, all pension related, totaled $270,000, nearly unchanged from the prior year.

Net Position
2019 compared to 2018
Total net position ended 2019 at $90.7 million, an increase of $10.3 million from the prior year. Total net position represents total assets and deferred outflows minus total liabilities and deferred inflows. Total net position is further broken down between net investment in capital assets, which declined by $1.3 million, and unrestricted net position, which increased by $11.7 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 that 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.

Annual changes in net position for Tri-Dam are a function of yearly net income (referred to as Change in Net Position on the Statements of Revenues, Expenses, and Changes in Net Position) less cash distributions to the Districts. For the year ended December 31, 2019, net income exceeded District Distributions by $10.3 million (although the Project made a distribution of $15.3 million in January 2020). Because the majority of excess cash is distributed to the Districts twice a year, growth in the Project's total net position (net worth) will typically be limited to an amount much less that net income.

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 that 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.

2018 compared to 2017

Total net position ended 2018 at $80.3 million, a decline of $9.6 million from the prior year ($8.8 million from restated January 1, 2018 beginning net position). Net position at the end of 2018 was broken down between investment in capital assets of $63.3 million, a decline of $749,000, and unrestricted net position of $17.0 million, a decline of $8.9 million. As mentioned previously, the Project restated its beginning net position to account for the impact of GASB 75 pertaining to other post-employment benefits.

The decline in net position was essentially due to discretionary distributions to the Districts exceeding the change in net position (net income). This is typical when the Project experiences a significant reduction in generation revenue from the prior year, as was the case during 2018.

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 2019, 2018 and 2017.

	Condensed Statement of Revenues, Expenses and Changes in Net Position				
	2019	2018	Increase (Decrease)	2017	Increase (Decrease)
Operating Revenues	$ 39,670,771	$ 21,651,773	$ 18,018,998	$ 48,458,414	$(26,806,641)
Operating Expenses	11,890,714	9,282,683	2,608,031	10,859,466	(1,576,783)
Net Operating Revenue (Expense)	27,780,057	12,369,090	15,410,967	37,598,948	(25,229,858)
Nonoperating Revenues	3,377,886	1,810,213	1,567,673	632,472	1,177,741
Nonoperating Expenses	2,576,958	1,876,310	700,648	1,960,961	(84,651)
Net Nonoperating Revenue (Expense)	800,928	(66,097)	867,025	(1,328,489)	1,262,392
Change in Net Position	28,580,985	12,302,993	16,277,992	36,270,459	(23,967,466)
Net Position, Beginning of Year	80,334,470	89,150,477	(8,816,007)	86,455,401	2,695,076
Less: Distributions to Member Districts	(18,252,000)	(21,119,000)	2,867,000	(32,773,000)	11,654,000
Net Position, End of Year	$ 90,663,455	$ 80,334,470	$ 10,328,985	$ 89,952,860	$ (9,618,390)

Note: Net Position, Beginning of Year for 2018 restated due to GASB 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions

Operating Revenues
2019 compared to 2018
The favorable water year and corresponding spring runoff in the Project's Stanislaus River watershed resulted in greater than average hydroelectric power generation revenue of $39.3 million, or $18.0 million greater than 2018 power generation revenue of $21.3 million. There were no significant unscheduled outages to any of the Project's power plants during the year, although PG&E's Public Safety Power Shutoffs necessitated that the Project intermittently idle several plants during the summer. The Project also benefited from a $3.0/MWh increase in the wholesale price of power versus 2018. The Project's contract with the City of Santa Clara includes a fixed price structure with scheduled increases each year until 2021 when the price remains unchanged for the remaining three years of the contract. Other operating revenue included headwater benefit fees from PG&E, which totaled $357,000.

2018 compared to 2017
Power generation revenue during 2018 totaled $21.3 million, significantly below 2017 total generation revenue of $48.1 million. Power generation revenue during 2017 was the most in the history of Tri-Dam Project. Although 2018 precipitation and snowpack levels were near average, the Project suffered a significant loss of revenue due to two extended unplanned outages when the Donnells power plant failed. Donnells is the Project's largest plant, and lost revenue during these outages totaled approximately $7.2 million. Other operating revenue included headwater benefit fees from PG&E, which totaled $351,000.

Nonoperating Revenues
2019 compared to 2018
Nonoperating revenues are generally realized from ancillary types of activities unrelated to power generation, and typically include reimbursements for operation and maintenance activities performed by the Project on behalf of other governmental entities, water sales, investment income, rental income, and permitting fees. During 2019, nonoperating revenue increased to $3.4 million, or $1.6 million greater than 2018 nonoperating revenue of $1.8 million. The increase in nonoperating revenue was primarily a result of $1.6 million in insurance proceeds received for lost revenue and equipment replacement for the Donnells plant failures of 2018.

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 Districts. Reimbursements from the USBR represent costs incurred by Tri-Dam for managing various operations on Tulloch Reservoir below New Melones Dam, and are calculated based upon a set number of hours and prevailing Tri-Dam wage and overhead rates. During 2019, reimbursements from SEWD and the USBR totaled $229,000, an increase of $39,000 from the prior year. The increase was attributable to additional maintenance work performed on Goodwin Dam.

Water sales totaled $173,000 during 2019, comparable to 2018. Water sales are based upon usage and a predetermined schedule, adjusted annually for inflation. The Project sells water to only two entities, the largest of which is the state of California's Sierra Conservation Center.

Investment earnings totaled $522,000, well above 2018 investment earnings of $261,000. The improvement in investment income resulted from a combination of higher average investment balances and the continued decline in market yields during the year, which increased the market value of existing securities held in the Project's portfolios. During 2019, the Project enjoyed a positive mark-to-market of the investment portfolio of $199,000, versus the prior year market value increase of $6,000.

Equipment and facilities rental income consists 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 other facilities owned by the Project. For 2019, rental income totaled $100,000, slightly greater than 2018.

Other nonoperating income primarily consisted of the final FEMA proceeds received as a result of the 2017 road damage, and totaled $761,000.

2018 compared to 2017
Nonoperating revenue totaled $1.8 million during 2018, substantially greater than 2017 nonoperating revenue of $632,000. The substantial increase in nonoperating revenue during 2018 was attributable to reimbursements from FEMA totaling approximately $1.0 million. These reimbursements were for repairs made by Tri-Dam to U.S. Forest Service roads damaged during the severe storms of 2017.

Operating Expenses
2019 compared to 2018
Total operating expenses rose considerably during 2019, primarily as a result of the Beardsley Afterbay repairs. These repairs, including the associated engineering, totaled $1.8 million. The Beardsley Afterbay Dam is a wooden crib, rock filled structure that was completed in 1957. Dams of this type normally have some acceptable seepage; however, a moderate increase had been detected in recent years, which necessitated the repair. The final phase of repairs are scheduled to be done in 2020. The Project also incurred a significant increase in legal costs during the year due to a variety of legal actions.

Labor expense excluding 1) the non-cash pension expense recorded under GASB 68, 2) the non-cash OPEB expense recorded under GASB 75, and 3) labor costs associated with Goodwin Dam (which are included in nonoperating expense) increased $107,000, or 3.1%, during 2019. The increase was primarily due to cost of living increases and severance payments.

Depreciation and amortization expense rose $32,000, to $2.1 million due to capital assets placed in service during the year.

2018 compared to 2017
Operating expenses during 2018 totaled $9.3 million, or $1.6 million less than 2017 operating expenses of $10.9 million. Labor costs excluding the non-cash impact of GASB 68, GASB 75, and labor associated with Goodwin Dam increased $279,000, or 8.8%, during 2018. The increase was primarily due to the addition of staff in both the operations and maintenance departments, in addition to a substantial amount of overtime.

Other operating expense declined sharply during 2018 due to the substantial costs incurred in 2017 to repair Forest Service roads leading to the Donnells facilities, and repairs to the Tulloch Dam third unit access road. These repairs totaled nearly $2.3 million in 2017, while minimal repair costs for these roads were incurred in 2018.

Depreciation and amortization expense rose $132,000 to $2.0 million due to capital assets placed in service during the year.

Nonoperating Expenses
2019 compared to 2018
Nonoperating expenses represent the operation and maintenance costs, including labor costs, of Goodwin Dam, and various ongoing studies and related legal costs associated with monitoring the Stanislaus River fish habitat and defending the Districts' water rights. The Project expects to incur significant nonoperating expenses associated with river flows and habitat studies for the foreseeable future. Nonoperating expenses totaled $2.6 million during 2019, an increase of $701,000 from 2018. River habitat studies and related legal costs increased by $571,000, while Goodwin dam expenses increased $130,000. 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 Districts and Stockton East Water District.

2018 compared to 2017
Nonoperating expenses totaled $1.9 million during 2018, a decrease of $85,000 from 2017. River habitat studies and related legal costs declined by $93,000, while Goodwin dam expenses increased $8,000.

CAPITAL ASSETS

The following table illustrates the Project's capital assets as of December 31, 2019 and 2018.

	2019	2018	Increase (Decrease)
Land	$ 1,500,800	$ 1,500,800	$ -
Construction in progress	376,019	339,678	36,341
Intangible asset - FERC license	8,213,938	8,213,938	-
Dams and power plants	87,894,714	87,862,992	31,722
Power plant equipment	8,952,812	8,632,647	320,165
Telemetry equipment	3,154,036	3,026,194	127,842
Buildings	947,193	947,193	-
Other equipment	4,052,457	4,026,984	25,473
Total Capital Assets	115,091,969	114,550,426	541,543
Less: accumulated depreciation	(53,090,926)	(51,216,209)	(1,874,717)
Net Capital Assets	$ 62,001,043	$ 63,334,217	$ (1,333,174)

Capital assets net of accumulated depreciation decreased $1.3 million to $62.0 million at the end of 2019. The decline resulted from capital asset additions of $805,000, depreciation of $1.8 million, amortization of intangible capital assets of $234,000, and disposals (net of accumulated depreciation) of $67,000.

The largest capital asset additions during 2019 included an exciter upgrade at the Beardsley powerhouse totaling $133,000, and the completion of the upgraded generator management relays and related protection modernization project at the Tulloch powerhouse totaling $120,000.

EXPECTATIONS FOR 2020

The 2019-2020 water year started relatively well, with December precipitation much greater than average. However, January and February 2020 were both well below average, with February recorded precipitation virtually zero. Accordingly, total generation through the first quarter of 2020 is approximately 14% below the Project's historical average. Given the below normal snow water equivalent in the Stanislaus River watershed, it is unlikely the Project will achieve budgeted generation of approximately 450,000 MWh. Partially offsetting the likely reduction in generation, is another scheduled $3 per MWh increase in the price paid by the Project's sole wholesale customer, the City of Santa Clara. Project management is actively reviewing the impact of deferring certain capital projects into 2021, with only those projects deemed immediately necessary to be implemented in 2020. The Project will, however, incur significant costs for the completion of the Beardsley Afterbay Dam repair, as well as significant costs for ongoing river habitat studies and negotiating state mandated flows on the Stanislaus River.

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.

TRI-DAM PROJECT
BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 2)	$21,237,620	$9,339,410
Short-term investments (Note 2)	2,220,823	1,184,830
Accounts receivable (Note 1G):		
Headwater benefit fees, PG&E	356,592	351,252
Power generation receivable	2,382,555	748,278
Services receivable, Tri-Dam Power Authority	170,837	103,107
Other	259,066	262,794
Accrued interest receivable	67,317	74,250
Prepaid expenses and other assets	320,239	218,842
Total Current Assets	27,015,049	12,282,763
Noncurrent Assets:		
Long-term investments (Note 2)	6,762,622	8,788,768
Capital Assets (Note 3):		
Not depreciated	1,876,819	1,840,478
Depreciated, net:		
Intangible asset - FERC license, net	6,071,829	6,305,361
Other capital assets depreciated, net	54,052,395	55,188,378
Total depreciated, net	60,124,224	61,493,739
Total Capital Assets	62,001,043	63,334,217
Total Assets	95,778,714	84,405,748
DEFERRED OUTFLOWS OF RESOURCES		
Pension related (Note 7)	3,095,459	4,182,070
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$98,874,173	$88,587,818
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable	$473,347	$328,927
Accrued salaries and benefits	181,721	73,033
Unearned revenues (Note 1J)	11,234	45,055
Deposits	129,083	115,635
Due to the Federal Energy Regulatory Commission	90,500	90,400
Compensated absences, current portion (Note 4)	200,179	233,056
Total Current Liabilities	1,086,064	886,106
Noncurrent Liabilities:		
Compensated absences, noncurrent portion (Note 4)	192,329	242,568
Total other postemployment benefits liability (Note 4 & 8)	1,372,430	1,189,216
Net pension liability (Note 7)	2,983,496	5,665,437
Total Noncurrent Liabilities	4,548,255	7,097,221
Total Liabilities	5,634,319	7,983,327
DEFERRED INFLOWS OF RESOURCES		
Pension related (Note 7)	2,576,399	270,021
NET POSITION (Note 1N)		
Net investment in capital assets	62,001,043	63,334,217
Unrestricted	28,662,412	17,000,253
Total Net Position	90,663,455	80,334,470
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$98,874,173	$88,587,818

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, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Power generation revenues (Note 1O)	$39,314,179	$21,300,521
Headwater benefit fees	356,592	351,252
Total Operating Revenues	39,670,771	21,651,773
OPERATING EXPENSES		
Operations	1,524,200	1,383,884
Maintenance	3,770,767	2,356,597
General and administrative	4,524,472	3,502,683
Depreciation and amortization (Note 3)	2,071,275	2,039,519
Total Operating Expenses	11,890,714	9,282,683
NET INCOME FROM OPERATIONS	27,780,057	12,369,090
NONOPERATING REVENUES (EXPENSES)		
Reimbursements	1,786,648	189,729
Water sales	172,592	167,417
Rental of equipment and facilities	100,234	95,067
Investment earnings	522,112	261,214
Other nonoperating revenue	822,774	1,085,627
River habitat studies	(2,164,124)	(1,593,254)
Goodwin Dam expenses	(412,834)	(283,056)
(Loss) Gain on disposal of capital assets	(26,474)	11,159
Total Nonoperating revenues (expenses)	800,928	(66,097)
CHANGE IN NET POSITION	28,580,985	12,302,993
NET POSITION, BEGINNING OF YEAR	80,334,470	89,150,477
Less: distributions to Districts (Note 6)	(18,252,000)	(21,119,000)
NET POSITION, END OF YEAR	$90,663,455	$80,334,470

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

TRI-DAM PROJECT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	$37,679,902	$23,714,323
Cash received for headwater benefits	351,252	343,651
Cash payments to suppliers for goods and services	(5,121,550)	(3,347,749)
Cash payments to and on behalf of employees for services	(3,755,305)	(6,719,880)
Cash Flows from Operating Activities	29,154,299	13,990,345
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Districts	(18,252,000)	(21,119,000)
Other net nonoperating revenues and expenses	241,288	(327,311)
Net Cash Used for Noncapital Financing Activities	(18,010,712)	(21,446,311)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(805,375)	(1,290,745)
Proceeds from sale of capital assets	39,290	11,159
Net Cash Used for Capital and Related Financing Activities	(766,085)	(1,279,586)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities		(3,493,221)
Proceeds from sales and maturities of investment securities	1,190,000	5,280,355
Interest received	330,708	206,842
Net Cash Used for Investing Activities	1,520,708	1,993,976
NET CASH FLOWS	11,898,210	(6,741,576)
Cash and cash equivalents at beginning of year	9,339,410	16,080,986
Cash and cash equivalents at end of year	$21,237,620	$9,339,410
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from operations	$27,780,057	$12,369,090
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,071,275	2,039,519
Changes in operating assets and liabilities:		
Power generation receivable	(1,634,277)	2,413,802
Headwater benefit fee receivable	(5,340)	(7,601)
Prepaid expenses and other assets	(101,397)	(11,668)
Deferred outflows/inflows of resources, net pension liability - pensions	711,048	(2,762,238)
Accounts payable	144,420	(256,566)
Accrued salaries and benefits	108,688	3,774
Unearned revenue	(33,821)	8,158
Unearned deposits	13,448	(14,929)
Due to FERC	100	130
Compensated absences	(83,116)	25,396
Other postemployment benefits	183,214	183,478
Cash Flows from Operating Activities	$29,154,299	$13,990,345

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

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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 Districts) entered into under a joint cooperation agreement on January 21, 1948. The Project is an organization that is jointly governed by the Districts and is not organized as a separate public agency according to state regulations. The 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 reservoir, dam, tunnel and power plant, Beardsley reservoir, dam and power plant, Tulloch reservoir, dam and power plant, Goodwin reservoir and dam, and several ancillary facilities. The Project's principal activities are the storage and delivery of water to the Districts and the hydraulic generation of electricity. These activities are carried out pursuant to the Districts' water rights and the Districts' licenses issued by the Federal Energy Regulatory Commission (FERC). The Districts have an operations agreement with the United States Bureau of Reclamation (USBR) that recognizes and confirms the Districts' water rights and requires the USBR to make available to the 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 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 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. 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.

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 Project is presented as a single enterprise fund. 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 consist 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 Districts and Stockton East Water District, which is a one-third owner of that dam. Expenses incurred to protect the Districts' 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, deferred outflows, liabilities, and deferred inflows, 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.

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, 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 are calculated using the straight line method over the following estimated useful lives:

Class of Capital Asset	Estimated Lives in Years
Intangible Asset - FERC License	33-40
Dams and Power Plants	10-99
Power Plant Equipment	5-99
Telemetry Equipment	5-99
Buildings	10-50

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

I. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the balance sheets 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, 2019 and 2018 consisted of miscellaneous receipts for future services.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

The Project's Memorandum of Understanding (MOU) with represented employees allows employees to accumulate unused vacation, subject to policy limits, and sick leave. Unrepresented employees are subject to the same policy as represented employees. 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.

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 Donnells 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 prices in 2019 and 2018 were $75 and $72 per MWh, respectively. The contract price includes scheduled increases ranging from 2.6% to 4.2% each year from 2019 through 2021 when the price is fixed through the remaining term of the agreement.

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, vision and dental insurance. No significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended December 31, 2019 and 2018. 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, although certain deductibles related to the Project's property insurance were increased.

Q. Related Party Transactions

Significant related party transactions consist primarily of cash distributions to and contributions from the Districts that are charged directly to net position. The Project maintains a relationship with Oak Valley Community Bank for all of its day-to-day banking activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Reclassification

For the year ended December 31, 2019, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the fiscal year 2019 presentation.

NOTE 2 – CASH AND INVESTMENTS

A. Classification

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

	2019	2018
Cash and cash equivalents:		
Cash on hand	$400	$300
Deposits with financial institutions	18,102,647	9,128,182
Money market mutual funds	3,128,539	205,041
Local Agency Investment Fund (LAIF)	6,034	5,887
Total unrestricted cash and cash equivalents	21,237,620	9,339,410
Investments		
Investments held by US Bank	8,983,445	9,973,598
Total investments	8,983,445	9,973,598
Total cash and investments	$30,221,065	$19,313,008

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

	2019	2018
Cash and investments under GASB 40		
Cash on hand	$400	$300
Deposits with financial institutions	18,102,647	9,128,182
Total cash and deposits	18,103,047	9,128,482
U.S. agency securities	8,983,445	9,973,598
Money market mutual funds	3,128,539	205,041
Local Agency Investment Fund (LAIF)	6,034	5,887
Total investments	12,118,018	10,184,526
Total cash and investments	$30,221,065	$19,313,008

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. 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
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposits	5 years	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, 2019 and 2018, respectively.

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.

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, 2019:

		Remaining Maturity		
	Total	12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. Agency Securities	$8,983,445	$2,220,823	$2,344,815	$4,417,807
Money Market Mutual Funds	3,128,539	3,128,539		
LAIF	6,034	6,034		
Total	$12,118,018	$5,355,396	$2,344,815	$4,417,807

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, 2019.

		Minimum	tings as of Year End		
	Total	Legal Rating	AAA/Aaa	AA+/Aaa	Not Rated
U.S. Agency Securities	$8,983,445	N/A		$8,983,445	
Money Market Mutual Funds	3,128,539	AAA/Aaa	$3,128,539		
LAIF	6,034	N/A			$6,034
	$12,118,018		$3,128,539	$8,983,445	$6,034

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, 2019:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	U.S. Agency Securities	$2,572,337
Federal Home Loan Bank	U.S. Agency Securities	3,139,178
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	799,792
Federal National Mortgage Association	U.S. Agency Securities	2,472,138

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, 2019 and 2018, the carrying amounts of the Project's deposits were $18,102,647 and $9,128,182 and the balances in financial institutions were $18,460,593 and $9,442,154 respectively. Of the balances in financial institutions, $250,000 at December 31, 2019 and 2018 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, 2019 by all public agencies in LAIF is $89,306,431,452, which is managed by the State Treasurer. Of that amount, 99.32% is invested in non-derivative financial products and 0.68% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Advisory Board) has oversight responsibility for LAIF. The Advisory 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.

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.

NOTE 2 – CASH AND INVESTMENTS (Continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the Project as of December 31, 2019:

Investments by Fair Value Level:	Level 1	Level 2	Exempt	Total
U.S. Agency Securities				
Federal Farm Credit Bank		$2,572,337		$2,572,337
Federal Home Loan Bank		3,139,178		3,139,178
Federal Home Loan Mortgage Corporation		799,792		799,792
Federal National Mortgage Association		2,472,138		2,472,138
Local Agency Investment Fund			$6,034	6,034
Money Market Mutual Funds	$3,128,539			3,128,539
Total investments	$3,128,539	$8,983,445	$6,034	12,118,018
Cash in banks and on hand				18,103,047
Total Cash and Investments				$30,221,065

Money market funds, classified in Level 1 of the fair value hierarchy, are valued by US Bank. 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. These prices are obtained from various pricing sources by the custodian bank with the exception of the Project's investment in the Local Agency Investment Fund, which is exempt from the fair value measurement hierarchy.

NOTE 3 – CAPITAL ASSETS

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

	Balance at January 1, 2019	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2019
Capital assets not being depreciated:					
Land	$1,500,800				$1,500,800
Construction in progress	339,678	$678,837		($642,496)	376,019
Total capital assets not being depreciated	1,840,478	678,837		(642,496)	1,876,819
Capital assets being depreciated:					
Intangible asset-FERC License	8,213,938				8,213,938
Dams and power plants	87,862,992		($101,681)	133,403	87,894,714
Power plant equipment	8,632,647	2,200	(16,166)	334,131	8,952,812
Telemetry equipment	3,026,194	858		126,984	3,154,036
Buildings	947,193				947,193
Other equipment	4,026,984	123,480	(145,985)	47,978	4,052,457
Total capital assets being depreciated	112,709,948	126,538	(263,832)	642,496	113,215,150
Accumulated depreciation/amortization:					
Intangible asset-FERC License	(1,908,577)	(233,532)			(2,142,109)
Dams and power plants	(41,235,609)	(1,202,932)	34,407		(42,404,134)
Power plant equipment	(2,766,444)	(286,189)	16,166		(3,036,467)
Telemetry equipment	(2,051,200)	(110,553)			(2,161,753)
Buildings	(771,574)	(20,766)			(792,340)
Other equipment	(2,482,805)	(217,303)	145,985		(2,554,123)
Total accumulated depreciation/amortization	(51,216,209)	(2,071,275)	196,558		(53,090,926)
Total capital assets being depreciated, net	61,493,739	(1,944,737)	(67,274)	642,496	60,124,224
Capital assets, net	$63,334,217	($1,265,900)	($67,274)		$62,001,043

	Balance at January 1, 2018	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2018
Capital assets not being depreciated:					
Land	$1,500,800				$1,500,800
Construction in progress	318,708	$505,340		($484,370)	339,678
Total capital assets not being depreciated	1,819,508	505,340		(484,370)	1,840,478
Capital assets being depreciated:					
Intangible asset-FERC License	8,213,938				8,213,938
Dams and power plants	87,862,992				87,862,992
Power plant equipment	8,381,184	52,148		199,315	8,632,647
Telemetry equipment	3,026,194				3,026,194
Buildings	947,193				947,193
Other equipment	3,145,705	733,257	($137,033)	285,055	4,026,984
Total capital assets being depreciated	111,577,206	785,405	(137,033)	484,370	112,709,948
Accumulated depreciation/amortization:					
Intangible asset-FERC License	(1,675,045)	(233,532)			(1,908,577)
Dams and power plants	(40,032,439)	(1,203,170)			(41,235,609)
Power plant equipment	(2,502,091)	(264,353)			(2,766,444)
Telemetry equipment	(1,939,454)	(111,746)			(2,051,200)
Buildings	(747,840)	(23,734)			(771,574)
Other equipment	(2,416,854)	(202,984)	137,033		(2,482,805)
Total accumulated depreciation/amortization	(49,313,723)	(2,039,519)	137,033		(51,216,209)
Total capital assets being depreciated, net	62,263,483	(1,254,114)		$484,370	61,493,739
Capital assets, net	$64,082,991	($748,774)			$63,334,217

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, 2019	Additions	Reductions	Balance at December 31, 2019	Current Portion	Long-Term Portion
Compensated absences	$475,624	$214,380	($297,496)	$392,508	$200,179	$192,329
Other postemployment benefits	1,189,216	200,968	(17,754)	1,372,430		1,372,430
	$1,664,840	$415,348	($315,250)	$1,764,938	$200,179	$1,564,759

	Balance at January 1, 2018 (as restated)	Additions	Reductions	Balance at December 31, 2018	Current Portion	Long-Term Portion
Compensated absences	$450,228	$208,846	($183,450)	$475,624	$233,056	$242,568
Other postemployment benefits	1,005,738	192,517	(9,039)	1,189,216		1,189,216
	$1,455,966	$401,363	($192,489)	$1,664,840	$233,056	$1,431,784

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:

	2019	2018
Maintenance Reserve	$8,833,746	$7,034,142
Operating Reserve	3,278,237	3,144,497
Total committed net position	$12,111,983	$10,178,639

The maintenance reserve was spent on the third generating unit at Tulloch Reservoir during 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 in 2013.

During 2018, the maintenance reserve was replenished by only $938,188 rather than $1.5 million in order to reimburse the Project for one generator step-up transformer at the Donnells power plant purchased in 2017. During 2019, the maintenance reserve was replenished by $1.5 million, in addition to changes in market value and interest income received on investments.

During 2018, $3.0 million of the operating reserve was used to pay down the Project's unfunded accrued pension liability with CalPERS. During 2019, the operating reserve remained the same as the prior year and only changed for market value adjustments and interest income received on investments.

NOTE 6 – DISTRIBUTIONS TO DISTRICTS

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

	2019	2018
Oakdale Irrigation District	$9,126,000	$10,559,500
South San Joaquin Irrigation District	9,126,000	10,559,500
Total distributions to Districts	$18,252,000	$21,119,000

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
- PEPRA Miscellaneous Plan

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

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.

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 PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the following: the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

	2019		2018	
Hire date	Miscellaneous Plan (Prior to January 1, 2013)	PEPRA Miscellaneous Plan (On or after January 1, 2013)	Miscellaneous Plan (Prior to January 1, 2013)	PEPRA Miscellaneous Plan (On or after January 1, 2013)
Benefit formula	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:				
1/1 - 6/30	7.948%	6.250%	7.946%	6.250%
7/1 - 12/31	7.951%	6.750%	7.948%	6.250%
Required employer contribution rates:				
1/1 - 6/30	10.609%	6.842%	10.110%	6.533%
7/1 - 12/31	11.432%	6.985%	10.609%	6.842%

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:

	2019			2018		
	Miscellaneous Plan	PEPRA Miscellaneous Plan	Total	Miscellaneous Plan	PEPRA Miscellaneous Plan	Total
Contributions - employer	$433,156	$68,270	$501,426	$3,500,979	$52,175	$3,553,154
Contributions - employee (paid by employer)	99,568	-	99,568	105,423	-	105,423
	$532,724	$68,270	$600,994	$3,606,402	$52,175	$3,658,577

The Project also made a lump-sum payment to the unfunded liability in the amount of $3 million in 2018, which is included in the above Schedule of Contributions.

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:

	2019	2018
	Proportionate Share of Net Pension Liability	Proportionate Share of Net Pension Liability
Miscellaneous Plan	$2,983,496	$5,665,437
Total Net Pension Liability	$2,983,496	$5,665,437

NOTE 7 – PENSION PLANS (Continued)

The Project's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability as of December 31, 2019 and 2018 is measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and 2017 rolled forward to June 30, 2019 and 2018, 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:

	2019 Miscellaneous Plan	2018 Miscellaneous Plan
Proportionate - June 30, 2018	0.124910%	
Proportionate - June 30, 2019	0.122400%	
Change - Increase (Decrease)	-0.002510%	
Proportionate - June 30, 2017		0.145526%
Proportionate - June 30, 2018		0.124910%
Change - Increase (Decrease)		-0.020616%

For the years ended December 31, 2019 and 2018 the Project recognized pension expense of $1,550,625 and $1,205,425 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:	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$374,407		$3,437,779	
Differences between actual and expected experience	207,216	($16,055)	10,556	($3,592)
Changes in assumptions	142,267	(50,432)	31,364	(7,687)
Differences between the employer's contributions and the employer's proportionate share of contributions	1,931,825	(138,518)	701,011	
Change in employer's proportion	439,744	(2,319,233)		(258,742)
Net differences between projected and actual earnings on plan investments		(52,161)	1,360	
Total	$3,095,459	($2,576,399)	$4,182,070	($270,021)

NOTE 7 – PENSION PLANS (Continued)

The $374,407 and $3,437,779 reported as deferred outflows of resources related to contributions subsequent to the measurement date at December 31, 2019 and 2018 will be recognized as a reduction of the net pension liability in the years ended December 31, 2020 and 2019, respectively. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows as of December 31:

Year Ended December 31	2019	2018
2019		$168,075
2020	$236,531	171,011
2021	(16,433)	137,658
2022	(85,985)	(2,474)
2023	10,540	
	$144,653	$474,270

E. *Actuarial Assumptions*

The total pension liabilities in the actuarial valuations were determined using the following actuarial assumptions:

	2019	2018
Valuation Date	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2019	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.500%	2.50%
Payroll Growth	3.00%	2.75%
Projected Salary Increase (1)	3.2% - 12.2%	3.2% - 11.3%
Investment Rate of Return (2)	7.00%	7.50%
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, 2019 and June 30, 2018 valuations were based on the results of a December 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website.

NOTE 7 – PENSION PLANS (Continued)

F. Discount Rate

The discount rates used by CalPERS to measure the total pension liability were 7.15% and 7.15% in the June 30, 2018 and 2017 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.

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.

	2019			2018		
Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	50.0%	4.80%	5.98%	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%	13.0%	3.75%	4.93%
Infrastructure and Forestland	0.0%			0.0%		
Liquidity	1.0%	0.00%	-0.92%	1.0%	0.00%	-0.92%
Total	100.0%			100.0%		

(a) An expected inflation of 2.00% used for this period.
(b) An expected inflation of 2.92% used for this period.

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:

	2019 Miscellaneous Plan	2018 Miscellaneous Plan
1% Decrease	6.15%	6.15%
Net Pension Liability	$5,944,265	$8,519,489
Current Discount Rate	7.15%	7.15%
Net Pension Liability	$2,983,496	$5,665,437
1% Increase	8.15%	8.15%
Net Pension Liability	$539,591	$3,309,465

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.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLAN

The Project follows the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). Required disclosures are presented below.

A. *Plan Description and Eligibility*

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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board Statement No. 75.

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 75. 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.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLAN (Continued)

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 represented employees and subject to change with each new MOU. Unrepresented employees are subject to the same funding commitment. 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. Employees Covered by Benefit Terms

Employees eligible for the plan consisted of the following at the measurement date of December 31, 2019 and December 31, 2018, respectively.

	2019	2018
Active employees	25	24
Inactive employees or beneficiaries currently receiving benefit payments	4	2
Inactive employees entitled to but not yet receiving benefit payments	1	1
Total	30	27

D. Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation dated December 31, 2019, based on the following 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, consistent with the long-term perspective of the calculations.

For the December 31, 2019 and 2018 valuations, the Project elected to use the alternative measurement method as allowed under Governmental Accounting Standards Board Statement No. 75.

The actuarial assumptions in 2019 include health premium increases of 4.8% to 4.6% and a 100% probability of remaining employed until retirement. The following assumptions were used for 2019 and 2018, respectively: an average retirement age of 61 and an average life expectancy of more than 65 years, and an average retirement age of 60 and an average life expectancy of more than 65 years.

The discount rate was based on the 20-year tax exempt municipal bond yield. The underlying mortality assumptions were based on the RP2000 Mortality Table for Males and Females Projected 18 years; this assumption does not include a margin for future improvements in longevity, and all other actuarial assumptions used in the December 31, 2019 and December 31, 2018 valuations were based on the results of an Alternative Measurement Method in accordance with GASB methodology.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLAN (Continued)

E. Changes in Total OPEB Liability

The components of the total OPEB liability of the Project as of December 31, were as follows:

	Total OPEB Liability
Balance at December 31, 2018	$1,189,216
Changes Recognized for the Measurement Period:	
Service cost	90,423
Interest on the total OPEB liability	52,105
Differences between expected and actual experience	(94,463)
Changes of assumptions	152,903
Benefit payments	(17,754)
Net changes	183,214
Balance at December 31, 2019	$1,372,430

	Total OPEB Liability
Balance at December 31, 2017	$1,005,738
Changes Recognized for the Measurement Period:	
Service cost	73,331
Interest on the total OPEB liability	36,966
Differences between expected and actual experience	155,926
Changes of assumptions	(73,706)
Benefit payments	(9,039)
Net changes	183,478
Balance at December 31, 2018	$1,189,216

F. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Project for December 31, 2019 and December 31, 2018, as well as what the Project's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2019 – 1.74% and 2018 - 3.10%) or 1-percentage-point higher (2019 – 3.74% and 2018 - 5.10%) than the current discount rate :

Total OPEB Liability (2019)

Discount Rate -1% (1.74%)	Discount Rate (2.74%)	Discount Rate +1% (3.74%)
$1,508,828	$1,372,430	$1,256,875

Total OPEB Liability (2018)

Discount Rate -1% (3.10%)	Discount Rate (4.10%)	Discount Rate +1% (5.10%)
$1,303,933	$1,189,216	$1,090,427

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLAN (Continued)

The following presents the total OPEB liability of the Project, as well as what the Project's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Total OPEB Liability (2019)	
1% Decrease (0% Medical/6.6% Pharmacy increasing/decreasing to 3.7% Medical3.7% Pharmacy)	Healthcare Cost Trend Rates (.1% Medical/7.6% Pharmacy increasing/decreasing to 4.7% Medical/4.7% Pharmacy)	1% Increase (1.1% Medical/8.6% Pharmacy increasing/decreasing to 5.7% Medical/5.7% Pharmacy)
$1,241,814	$1,372,430	$1,528,499

	Total OPEB Liability (2018)	
1% Decrease (2.9% Medical/6.6% Pharmacy increasing/decreasing to 3.7% Medical/3.7% Pharmacy)	Healthcare Cost Trend Rates (3.9% Medical/7.6% Pharmacy increasing/decreasing to 4.7% Medical/4.7% Pharmacy)	1% Increase (4.9% Medical/8.6% Pharmacy increasing/decreasing to 5.7% Medical/5.7% Pharmacy)
$1,075,091	$1,189,216	$1,323,756

G. OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended December 31, 2019 and December 31, 2018, the Project recognized OPEB expense of $200,968 and $192,517, respectively. At December 31, 2019 and December 31, 2018, the Project reported deferred outflows of resources and deferred inflows of resources related to OPEB of $0 and $0, respectively.

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NOTE 9 – CONTINGENCIES AND COMMITMENTS

Regulatory

Bay Delta – The State Water Board on December 12, 2018 adopted Phase I of the Water Quality Control Plan (WQCP). Phase I requires the bypass or release of 40% of the Unimpaired flow (UIF) on the Stanislaus River from February 1st to June 30th, or minimum base flows as required by Appendix 2e of the OCAP - Biological Opinion, whichever is greater. This will require significantly higher releases into the lower Stanislaus River. OID and SSJID (Districts) modeling indicates that New Melones Storage will have significant impacts. Lower storage, less release in the summer, less water available in below normal, dry and critically dry years may lead to a negative impact on Tulloch's power generation. In addition, if District water supplies are depleted due to the 40% UIF requirement, the Districts may need to call on stored water from Donnells and Beardsley, which may impact power generation at these facilities (as well as Tri-Dam Power Authority's Sand Bar facility).

NOTE 9 – CONTINGENCIES AND COMMITMENTS (Continued)

The Districts have sued the SWB in Tuolumne County Superior Court. Eight other actions have been filed against Phase I of the WQCP. The Districts will vigorously oppose the proposed WQCP. Litigation is expected to take 8-10 years.

The SWB has not commenced Phase III of the WQCP. Phase III is the implementation of the Phase I WQCP objectives. This is where the SWB decides what entities are responsible for ensuring the 40% UIF objective is met and how it is met. This process will take 3-6 years. The SWB says in their Phase I Plan that it will be fully implemented by 2022. Any order in Phase III will be subject to litigation by the Districts. This litigation will last 6-8 years.

Given the fact that the WQCP is not self-implementing, the Districts do not see any project operation changes in the near term.

Biological Opinion - Jurisdiction over fisheries migrating to or in the oceans under the Endangered Species Act rests with the United States Department of Commerce's National Marine Fisheries Service, a division of the Oceanic and Atmospheric Administration (NMFS). In June 2009, NMFS issued a final biological opinion and imposed new flow requirements on the USBR in its operation of New Melones Reservoir. The flow requirements potentially deplete the volume of water stored at New Melones Reservoir and may impact the water available to the Districts under the 1988 Agreement and Stipulation. Although the U.S. District Court overturned the biological opinion upon challenge from the Districts, the U.S. Ninth Circuit Court of Appeals upheld the opinion in December 2014. Reclamation has re-initiated consultation with NMFS regarding the Biological Opinions for the long-term operation of the CVP-SWP. This includes New Melones. The Districts are cooperating agencies in the re-consultation. Until the re-consultation is completed, the existing Biological Opinion is in place and so is the existing flow schedule. On January 30, 2019, Reclamation submitted a new Biological Assessment to USFWS and NMFS for the Biological Opinions for the long-term operation. NMFS will have a Draft Biological Opinion by June 30, 2019.

Reclamation's proposed Biological Assessment for New Melones proposes river releases less than the current Appendix 2e flow requirements.

The 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 Districts or the Project at this time.

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 at this time.

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REQUIRED SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT

REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2019

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

	2019	2018	2017	2016	2015	2014 (As Restated)
Percentage share of the net pension liability	0.122400%	0.124910%	0.145526%	0.142750%	0.142863%	0.119699%
Tri-Dam share of the net pension liability	$2,983,496	$5,665,437	$5,736,690	$4,959,124	$3,919,442	$2,958,335
Covered payroll	$2,847,569	$2,619,155	$2,504,259	$2,361,816	$1,936,368	$1,943,487
Proportionate share of the net pension liability as a percentage of covered payroll	104.77%	216.31%	229.08%	209.97%	202.41%	152.22%
Plan fiduciary net position	$13,979,687,268	$13,122,440,092	$12,074,499,781	$10,923,476,287	$10,896,036,068	$10,639,461,174
Plan total pension liability	$17,984,188,264	$16,891,153,209	$16,016,547,402	$14,397,353,530	$13,639,503,084	$13,110,948,452
Plan fiduciary net position as a percentage of the total pension liability	77.73%	77.69%	75.39%	75.87%	79.89%	81.15%

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, 2018 (for 2019), 2017 (for 2018), 2016 (for 2017), 2015 (for 2016) and 2014 (for 2015) 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, 2019

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

Fiscal Year Ended December 31,	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually required contribution (actuarially determined)	$501,426	$553,154	$475,900	$424,573	$460,162	$326,279
Contributions in relation to the actuarially determined contributions	(501,426)	(3,553,154)	(475,900)	(424,574)	(460,162)	(326,279)
Contribution deficiency (excess)	$0	($3,000,000)	$0	$0	$0	$0
Covered payroll	$2,847,569	$2,619,155	$2,504,259	$2,361,816	$1,936,368	$1,943,437
Contributions as a percentage of covered payroll	17.61%	135.66%	19.00%	17.98%	23.76%	16.79%
Notes to Schedule						
Valuation date:	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013

Methods and assumptions used to determine contribution rates (based on June 30, 2018 actuarial valuation date)

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	2.500%
Salary increases	3.2% - 12.2% Depending on Entry Age and Service
Investment rate of return	7.0%
Retirement age	50-67 Years. Probabilities of Retirement are Based on the 2017 CalPERS Experience Study
Mortality	CalPERS Specific Data from 2017 CalPERS Experience Study

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, 2019

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

Single- Employer Defined Benefit OPEB Plan
Last 10 fiscal years*

Measurement Date	12/31/19	12/31/18
Total OPEB Liability (1)		
Service Cost	$90,423	$73,331
Interest	52,105	36,966
Differences between expected and actual experience	(94,463)	155,926
Changes of assumptions	152,903	(73,706)
Benefit payments	(17,754)	(9,039)
Net change in total OPEB liability	183,214	183,478
Total OPEB liability - beginning	1,189,216	1,005,738
Total OPEB liability - ending	$1,372,430	$1,189,216
Covered-employee payroll	$3,131,264	$2,689,587
Total OPEB liability as a percentage of covered-employee payroll	43.83%	44.22%

Notes to Schedule:

(1) No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board Statement No. 75.

Benefit changes: None

* Fiscal year 2018 was the first year of implementation.

OTHER SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS
MAINTENANCE, GENERAL AND ADMINISTRATIVE

For the Years Ended December 31, 2019 and 2018

	2019	2018
Donnells Facility:		
Operations		
Supervision wages and benefits	$29,199	$24,133
Hydraulic wages and benefits	11,985	11,475
Electric wages and benefits	273,084	251,775
Other wage and benefits	416	
Supplies and materials	15,964	36,294
Total Operations	330,648	323,677
Maintenance		
Supervision wages and benefits	22,074	74,696
Structures wages and benefits	7,116	18,559
Reservoirs and dams wages and benefits	49,953	76,505
Electrical plant wages and benefits	96,196	396,725
Other wages and benefits	33,392	74,938
High voltage wages and benefits	147	809
Communications and security wages and benefits	12,056	25,822
Supplies and materials	96,145	385,814
Road repairs	39,127	40,226
Total Maintenance	356,206	1,094,094
Total Donnells Facility	686,854	1,417,771
Beardsley Facility:		
Operations		
Supervision wages and benefits	46,791	30,022
Hydraulic wages and benefits	19,461	16,387
Electric wages and benefits	263,779	199,457
Other wages and benefits	356	
Supplies and materials	18,016	10,831
Total Operations	348,403	256,697
Maintenance		
Supervision wages and benefits	58,341	37,577
Structures wages and benefits	33,472	36,731
Reservoirs and dams wages and benefits	58,921	23,165
Electrical plant wages and benefits	145,408	53,804
Other wages and benefits	137,844	25,351
Communications and security wages and benefits	15,185	22,746
Supplies and materials	1,974,651	199,267
Total Maintenance	2,423,822	398,641

(Continued)

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS
MAINTENANCE, GENERAL AND ADMINISTRATIVE

For the Years Ended December 31, 2019 and 2018

	2019	2018
General and Administrative		
USFS resource management support	$99,159	$97,852
Total General & Administrative	99,159	97,852
Total Beardsley Facility	2,871,384	753,190
Tulloch Facility:		
Operations		
Supervision wages and benefits	116,396	121,205
Hydraulic wages and benefits	17,099	15,871
Electric wages and benefits	294,703	256,237
Other wages and benefits	96	
Supplies and materials	16,094	10,759
Total Operations	444,388	404,072
Maintenance		
Supervision wages and benefits	34,692	38,364
Structures wages and benefits	26,344	21,234
Reservoirs and dams wages and benefits	11,344	12,781
Electrical plant wages and benefits	103,121	154,824
Other wages and benefits	81,605	64,961
High voltage wages and benefits	3,218	
Communications and security wages and benefits	44,791	8,182
Supplies and materials	233,997	101,293
Road repairs	16,898	
Total Maintenance	556,010	401,639
General and Administrative		
Supplies and Materials	194,756	78,620
Headwater benefit assessment	90,601	90,597
Other	8,159	57,589
Total General and Administrative	293,516	226,806
Total Tulloch Facility	1,293,914	1,032,517
Mt Elizabeth Facility:		
Operations		
Supplies and materials	17,065	18,341
Maintenance		
Supervision wages and benefits	876	129
Structures wages and benefits	1,909	1,932
Other wages and benefits	7,113	2,925
Communications and security wages and benefits	9,860	6,250
Supplies and materials	3,676	4,665
Total Maintenance	23,434	15,901
Total Mt. Elizabeth Facility	40,499	34,242

(Continued)

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS
MAINTENANCE, GENERAL AND ADMINISTRATIVE

For the Years Ended December 31, 2019 and 2018

	2019	2018
Strawberry Peak Facility:		
Operations		
Supplies and materials	$14,301	$10,659
Maintenance		
Supervision wages and benefits	2,786	930
Structures wages and benefits	3,116	2,099
Other wages and benefits	7,886	103
Communications and security wages and benefits	3,795	4,982
Supplies and materials	8,772	19,950
Total Maintenance	26,355	28,064
Total Strawberry Peak	40,656	38,723
Operations Center		
Operations		
Supervision wages and benefits	23,898	23,801
Electric wages and benefits	173,176	193,747
Supplies and materials	4,748	4,493
Total Operations	201,822	222,041
Maintenance		
Structures wages and benefits	4,854	1,967
Other wages and benefits	1,477	
Other maintenance	543	
Communications and security wages and benefits	25,797	43,476
Supplies and materials	2,346	3,304
Total Maintenance	35,017	48,747
Total Operations Center	236,839	270,788
Service Center		
Maintenance		
Structures wages and benefits	5,552	2,915
Other wages and benefits	63,121	63,668
Supplies and materials	259,184	255,937
Total Maintenance	327,857	322,520
Total Service Center	327,857	322,520
Division Point Facility:		
Operations:		
Supervision wages and benefits	23,903	23,803
Hydraulic wages and benefits	24,643	20,929
Electric wages and benefits	115,825	100,396
Supplies and materials	3,202	3,269
Total Operations	167,573	148,397

(Continued)

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS
MAINTENANCE, GENERAL AND ADMINISTRATIVE

For the Years Ended December 31, 2019 and 2018

	2019	2018
Maintenance		
Supervision wages and benefits	$889	$1,407
Structures wages and benefits	611	1,761
Reservoirs and dams wages and benefits	988	10,994
Other wages and benefits	7,927	1,311
Communications and security wages and benefits	7,338	28,293
Supplies and materials	4,313	3,225
Total Maintenance	22,066	46,991
Total Division Point	189,639	195,388
Total Operations and Maintenance	5,294,967	3,740,481
Overall General and Administrative:		
Outside services	817,481	534,515
Administrative wages and benefits	1,073,393	902,142
Property insurance	417,112	361,194
FERC administrative and land fees	143,090	204,078
Safety fees and expense	269,290	191,978
Other wages and benefits-mobile equip. operation	86,536	90,552
Streamgaging	65,492	66,357
Miscellaneous	40,591	72,035
Utilities	40,510	41,851
Meals allowance and travel expense	13,546	26,124
Telephone, internet, data links	77,335	61,679
Office supplies and expense	59,974	30,996
Computer supplies	5,285	9,582
County taxes	46,628	26,708
Professional organizations	25,903	11,385
Pension expense (GASB 68)	949,631	546,849
Total Overall General and Administrative	4,131,797	3,178,025
Total General and Administrative	4,524,472	3,502,683
Depreciation and Amortization		
Depreciation on capital assets	1,837,743	1,805,987
FERC relicensing amortization	233,532	233,532
Total Depreciation and Amortization	2,071,275	2,039,519
TOTAL OPERATING EXPENSES	$11,890,714	$9,282,683

(Continued)

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS
MAINTENANCE, GENERAL AND ADMINISTRATIVE

For the Years Ended December 31, 2019 and 2018

	2019	2018
SUMMARY OF OPERATING EXPENSES BY TYPE		
Operations	$1,524,200	$1,383,884
Maintenance	3,770,767	2,356,597
General and administrative	4,524,472	3,502,683
Depreciation and amortization	2,071,275	2,039,519
TOTAL OPERATING EXPENSES	$11,890,714	$9,282,683

COMPLIANCE REPORT

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

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

We have audited, in accordance with 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 basic financial statements of the Tri-Dam Project (the Project), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2020.

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*.

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We have also issued a separate Memorandum on Internal Control dated April 13, 2020 which is an integral part of our audit and should be read in conjunction with this report.

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.

Maze + Associates

Pleasant Hill, California
April 13, 2020