

TRI-DAM POWER AUTHORITY
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

PREPARED BY THE FINANCE DEPARTMENT

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BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Tri-Dam Power Authority
Strawberry, California

Report on Financial Statements

We have audited the accompanying basic financial statements of Tri-Dam Power Authority (Authority) as of and for the years ended December 31, 2017 and 2016 and the related notes to the financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2017 and 2016, and changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California

April 11, 2018

TRI-DAM POWER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of the Tri-Dam Power Authority's (Authority) financial position as of December 31, 2017 and 2016, and the Authority's financial performance for the years then ended. Condensed financial information for 2015 is also presented for comparison purposes. We encourage readers to consider the information presented here in conjunction with the more comprehensive financial statements, the notes to those financial statements, and the other additional information provided.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

- The Authority enjoyed exceptionally high levels of generation during 2017 as a result of much greater than average rain and snowfall. Total generation at the Authority's run-of-the-river Sand Bar hydroelectric facility totaled 121,000 megawatt hours (MWh), a significant improvement from 2016 total generation of 94,000 MWh, and the second highest in the history of the Authority.
- On January 1, 2017, the Authority began delivery of electricity to the City of Santa Clara, California, through the city's municipal electric utility, Silicon Valley Power. The agreement calls for a fixed contract price with annual pre-determined increases through December 31, 2023.
- Operating revenues from power generation improved \$3.2 million to \$8.4 million as compared to prior year total generation revenues of \$5.2 million.
- Operating expenses decreased \$156,000 from the prior year, primarily as a result of a decline in outside consulting expense and labor-related costs.
- Nonoperating revenue increased \$14,000, while nonoperating expenses declined \$41,000 from the prior year due to the retirement of the Authority's remaining Revenue Refunding bonds during 2016 and corresponding elimination of interest costs.
- Total net position, the level by which total assets exceed total liabilities, increased by \$5.8 million, from \$28.4 million at December 31, 2016, to \$34.2 million at December 31, 2017.

FINANCIAL ANALYSIS OF THE AUTHORITY

This section is intended to serve as an introduction to the Authority's Basic Financial Statements and Compliance Report. The financial data contained herein reflect the audited 2017 and 2016 financial results.

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

Because the Authority does not have any employees, the Authority is not subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions*. The Authority is managed and operated by employees on loan from Tri-Dam Project (Project), a related but separate entity, and the impacts of GASB 68 are completely accounted for within the Project's financial statements.

Basic Financial Statements

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

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

The Balance Sheets detail the Authority's assets, liabilities, and net position as of a specific point in time. Increases or decreases in net position generally indicate improvement or deterioration in financial strength when analyzed over a period of years. However, increases and decreases in net position for Tri-Dam Power Authority should always be analyzed in combination with the level and trend of distributions to the Oakdale Irrigation District and the South San Joaquin Irrigation District (Member Districts).

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

The Statements of Cash Flows break down the sources and uses of cash by activity, providing the detail of changes in the Authority's cash and cash equivalents during the year. Cash flow sources and uses are categorized as 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 behind the numbers.

Compliance Report

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

BALANCE SHEETS

The following table illustrates the Authority's condensed balance sheets for 2017, 2016 and 2015.

	Condensed Balance Sheets				
	2017	2016	Increase (Decrease)	2015	Increase (Decrease)
<u>Assets</u>					
Current Assets	\$ 9,571,468	\$ 3,275,235	\$ 6,296,233	\$ 2,529,466	\$ 745,769
Restricted Assets	-	-	-	1,640,059	(1,640,059)
Capital Assets, Net	24,738,743	25,236,033	(497,290)	25,699,758	(463,725)
Total Assets & Deferred Outflows	<u>\$ 34,310,211</u>	<u>\$ 28,511,268</u>	<u>\$ 5,798,943</u>	<u>\$ 29,869,283</u>	<u>\$ (1,358,015)</u>
<u>Liabilities</u>					
Current Liabilities	\$ 104,133	\$ 88,085	\$ 16,048	\$ 5,250,018	\$ (5,161,933)
Noncurrent Liabilities	-	-	-	-	-
Total Liabilities	<u>104,133</u>	<u>88,085</u>	<u>16,048</u>	<u>5,250,018</u>	<u>(5,161,933)</u>
<u>Net Position</u>					
Net Investment in Capital Assets	24,738,743	25,236,033	(497,290)	21,309,605	3,926,428
Restricted for Debt Service	-	-	-	1,640,059	(1,640,059)
Unrestricted	9,467,335	3,187,150	6,280,185	1,669,601	1,517,549
Total Net Position	<u>34,206,078</u>	<u>28,423,183</u>	<u>5,782,895</u>	<u>24,619,265</u>	<u>3,803,918</u>
Total Liabilities and Net Position	<u>\$ 34,310,211</u>	<u>\$ 28,511,268</u>	<u>\$ 5,798,943</u>	<u>\$ 29,869,283</u>	<u>\$ (1,358,015)</u>

Assets

2017 compared to 2016

Current assets increased \$6.3 million during 2017, almost entirely due to the significant increase in power generation revenue (and corresponding cash flow), combined with a reduction in expenditures. The elimination of debt payments in November of 2016 has also allowed the Authority to accumulate cash at a more rapid pace than during prior years. Cash and equivalents increased nearly \$6.0 million, while the power generation receivable from the City of Santa Clara, California was \$289,000 greater than the prior year generation receivable from Pacific Gas & Electric Company (PG&E). The Authority made a \$1.4 million cash distribution to the Member Districts in January 2017, the first cash distribution since 2013.

Noncurrent capital assets decreased by \$497,000 during 2017 as a result of normal depreciation of \$508,000, net of capital asset additions of only \$11,000. The only capital asset additions were capacitor voltage transformers for new metering.

2016 compared to 2015

Current assets increased \$746,000 during 2016 due to a \$624,000 increase in unrestricted cash and cash equivalents. The improvement in the Authority's unrestricted cash balances was primarily due to improved generation revenues and the decision of the Authority's Board of Commissioners to delay cash distributions to the Member Districts until January 2017. Moreover, the final payoff of the Authority's Revenue Refunding bonds in November utilized all restricted cash balances and has eliminated any debt payments going forward. The principal balance of the bonds paid off in 2016 was approximately \$1.6 million greater than the balances paid off in previous years. Total current assets also increased due to a \$125,000 increase in the power generation receivable from PG&E.

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

Liabilities

2017 compared to 2016

Liabilities at the end of 2017 primarily consisted of accrued payroll and other labor costs for employees on loan from Tri-Dam Project, a related but separate entity that operates in coordination with the Authority. The two entities maintain a cost sharing agreement whereby the Project provides all labor and various other services to the Authority and is periodically reimbursed by the Authority. Total liabilities as of December 31, 2017 equaled \$104,000, an increase of \$16,000 from the prior year.

2016 compared to 2015

The Authority ended 2016 with only \$88,000 in total liabilities, almost all of which represented accrued payroll and other labor costs owed to Tri-Dam Project. During 2016, the Authority paid off all outstanding debt and also reimbursed Tri-Dam Project for the majority of amounts owed that had previously been deferred for nearly two years.

Net Position

2017 compared to 2016

Net position at the end of 2017 totaled \$34.2 million, an increase of \$5.8 million from prior year net position of \$28.4 million. Net position invested in capital assets decreased \$497,000, while unrestricted net position increased \$6.3 million. The net investment in capital assets represents the Authority's investment in hydroelectric production facilities, a water conveyance tunnel, roads, bridges, and other equipment, the cost of which is recognized over the useful lives of these assets through depreciation expense. The net position invested in capital assets is shown on the balance sheets net of accumulated depreciation.

The Authority did not have any restricted net position as of the end of 2017. The Authority's Board of Commissioners has previously imposed minimum reserve balances which can be changed at the Board's discretion. These minimums are in place to ensure adequate reserve balances exist in the event of a system failure or to fund future projects.

2016 compared to 2015

Net position at the end of 2016 totaled \$28.4 million, an increase of \$3.8 million from the prior year. Net position invested in capital assets totaled \$25.2 million, an increase of \$3.9 million. The increase in net position invested in capital assets is primarily a result of the payoff of \$4.4 million in related debt during 2016. As a result, unrestricted net position also increased, and totaled \$3.2 million, an increase of \$1.5 million from 2015.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following table illustrates the Authority's condensed statements of revenues, expenses, and changes in net position for 2017, 2016 and 2015.

	Condensed Statements of Revenues, Expenses, and Changes in Net Position				
	2017	2016	Change	2015	Change
Operating Revenues	\$ 8,387,333	\$ 5,235,825	\$ 3,151,508	\$ 3,583,319	\$ 1,652,506
Operating Expenses	1,246,807	1,402,966	(156,159)	1,274,799	128,167
Net Operating Revenue (Expense)	7,140,526	3,832,859	3,307,667	2,308,520	1,524,339
Nonoperating Revenues	26,369	11,939	14,430	3,896	8,043
Nonoperating Expenses	-	(40,880)	40,880	(168,420)	127,540
Net Nonoperating Revenue (Expense)	26,369	(28,941)	55,310	(164,524)	135,583
Change in Net Position	7,166,895	3,803,918	3,362,977	2,143,996	1,659,922
Net Position, Beginning of Year	28,423,183	24,619,265	3,803,918	22,475,269	2,143,996
Less: Distributions to Member Districts	(1,384,000)	-	(1,384,000)	-	-
Net Position, End of Year	\$ 34,206,078	\$ 28,423,183	\$ 5,782,895	\$ 24,619,265	\$ 3,803,918

Revenues

2017 compared to 2016

Operating revenues were exceptionally strong during 2017 due to the near record levels of precipitation and snow fall. Power generation revenue totaled \$8.4 million, an increase of \$3.2 million from 2016. Power generation revenue also benefited from an improved fixed price structure under the power purchase agreement with the City of Santa Clara, which went into effect at the start of the year.

Nonoperating revenues consisted of interest income from investments, which totaled \$26,000, an increase of \$14,000 from the prior year. The improvement was due to higher investment balances and generally increasing market interest rates.

2016 compared to 2015

The Authority sold 100% of its power directly to PG&E during 2016 under the last year of a standard offer contract for qualifying facilities. The revenue included payment for capacity and energy calculated by the short run avoided cost tariff. Generation at the Sand Bar plant increased substantially during 2016 to approximately 94,000 MWh, from 30,000 MWh during 2015. Accordingly, generation revenue improved to \$5.2 million, from \$3.6 million in the prior year. Partially offsetting improved generation was a 14% decline in wholesale power prices received from PG&E.

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

Expenses

2017 compared to 2016

Operating expenses totaled \$1.2 million during 2017, a decrease of \$156,000 from 2016. The decrease was primarily attributable to costs incurred in 2016 for consulting, engineering, and modeling work related to the transition from PG&E to the City of Santa Clara. In addition, payroll and other labor-related costs declined by \$34,000. There were no nonoperating or significant nonrecurring expenses during the year.

2016 compared to 2015

Operating expenses totaled \$1.4 million during 2016, an increase of \$128,000, or 10.1%. The increase was primarily due to increased administrative expense associated with consulting and engineering work performed to assist with modeling Stanislaus River flows and the related potential generation under the new framework of selling power to the City of Santa Clara.

Other significant operating expenses were incurred gaining interconnection approval of the Sand Bar plant with the California Independent System Operator. Interconnection approval was necessary due to the expiration of the 30-year power purchase agreement with PG&E and new agreement with the City of Santa Clara that commenced on January 1, 2017. Finally, labor costs rose \$45,000 as a result of increased overtime and wage adjustments resulting from the ratification of a new memorandum of understanding with represented employees (of Tri-Dam Project), along with other compensation adjustments for non-represented employees.

Nonoperating expenses totaled \$41,000, and consisted of the interest expense incurred on the refunding bonds. As mentioned previously, the Authority retired the final \$4.4 million of bonds still outstanding in 2016.

CAPITAL ASSETS

The following table illustrates the Authority's capital assets for 2017 and 2016.

	<u>CAPITAL ASSETS</u>		Increase (Decrease)
	<u>2017</u>	<u>2016</u>	
Construction in progress	\$ 14,243	\$ 3,395	\$ 10,848
Hydraulic production facilities	19,137,266	19,137,266	-
Conveyance tunnel	22,123,528	22,123,528	-
Roads and bridges	1,510,573	1,510,573	-
Other equipment	2,545,156	2,545,156	-
Total Capital Assets	45,330,766	45,319,918	10,848
Less: accumulated depreciation	(20,592,023)	(20,083,885)	(508,138)
Net Capital Assets	<u>\$24,738,743</u>	<u>\$25,236,033</u>	<u>\$ (497,290)</u>

During 2017, the Authority's capital assets net of accumulated depreciation decreased \$497,000, due to normal depreciation of \$508,000 and capital additions of \$11,000. Note C to the financial statements contains additional information regarding the Authority's capital assets.

EXPECTATIONS FOR 2018

The 2017-18 water year started poorly and has only recently recovered somewhat during the month of March. Nonetheless, precipitation and snow pack are still well below average. Accordingly, generation has lagged in early 2018, and it is unlikely the Authority will meet its budgeted generation revenue of \$5.3 million. In addition, the Beardsley Afterbay Dam (A-Bay Dam) is scheduled to undergo repair work later in 2018, which will necessitate lowering the afterbay reservoir significantly. Because water to the Authority's Sand Bar plant is conveyed via a 3.5-mile tunnel commencing near the A-Bay Dam, the Sand Bar plant will need to be offline during the dam repair, which is expected to further diminish generation.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

TRI-DAM POWER AUTHORITY
BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 2)	\$8,903,884	\$2,905,837
Prepaid expenses	43,000	36,518
Accrued interest receivable	3,056	232
Accounts receivable, power generation	621,528	332,648
Total Current Assets	9,571,468	3,275,235
Capital Assets (Note 3):		
Non-depreciable	14,244	3,395
Depreciated, net	24,724,499	25,232,638
Total Noncurrent Assets	24,738,743	25,236,033
Total Assets	\$34,310,211	\$28,511,268
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable	\$2,509	\$3,152
Accounts payable, Tri-Dam Project	101,624	84,933
Total Current Liabilities	104,133	88,085
Total Liabilities	104,133	88,085
NET POSITION (Note 1K)		
Net investment in capital assets	24,738,743	25,236,033
Unrestricted	9,467,335	3,187,150
Total Net Position	34,206,078	28,423,183
TOTAL LIABILITIES AND NET POSITION	\$34,310,211	\$28,511,268

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

TRI-DAM POWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Power generation revenues	\$8,387,333	\$5,235,825
Total Operating Revenues	8,387,333	5,235,825
OPERATING EXPENSES		
Operations	287,207	340,090
Maintenance	175,307	194,185
General and administrative	276,154	361,759
Depreciation (Note 3)	508,139	506,932
Total Operating Expenses	1,246,807	1,402,966
NET INCOME FROM OPERATIONS	7,140,526	3,832,859
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	26,369	11,939
Interest expense		(40,880)
Total Nonoperating Revenues (Expenses)	26,369	(28,941)
CHANGE IN NET POSITION	7,166,895	3,803,918
NET POSITION, BEGINNING OF YEAR	28,423,183	24,619,265
Less: distributions to Member Districts (Note 5)	(1,384,000)	
NET POSITION, END OF YEAR	\$34,206,078	\$28,423,183

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

TRI-DAM POWER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	\$8,098,453	\$5,108,903
Cash payments to suppliers for goods and services	(729,102)	(1,633,184)
Cash Flows from Operating Activities	7,369,351	3,475,719
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Member Districts	(1,384,000)	
Net Cash Used for Noncapital Financing Activities	(1,384,000)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(10,848)	(43,416)
Interest paid on long-term debt		(129,900)
Principal paid on long-term debt		(4,330,000)
Net Cash Used for Capital and Related Financing Activities	(10,848)	(4,503,316)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	23,544	11,939
Net Cash Provided by Investing Activities	23,544	11,939
NET CASH FLOWS	5,998,047	(1,015,658)
Cash and cash equivalents at beginning of year	2,905,837	3,921,495
Cash and cash equivalents at end of year	\$8,903,884	\$2,905,837
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Unrestricted cash and cash equivalents	\$8,903,884	\$2,905,837
Restricted cash and cash equivalents with fiscal agent		
Cash and Cash Equivalents	\$8,903,884	\$2,905,837
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from operations	\$7,140,526	\$3,832,859
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	508,139	506,932
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses	(6,482)	3,678
(Increase) decrease in accounts receivable, power generation	(288,880)	(124,837)
Increase (decrease) in accounts payable	(643)	(13,241)
Increase (decrease) in accounts payable to Tri-Dam Project	16,691	(728,377)
Increase (decrease) in unearned revenue		(1,295)
Cash Flows from Operating Activities	\$7,369,351	\$3,475,719

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

TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. *Organization and Purpose*

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

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

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

TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

C. Basis of Accounting

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

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

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

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

D. Budgetary Principals

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

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

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

G. Fair Value Hierarchy

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

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

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

H. Accounts Receivable

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

**TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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

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

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

J. Bonds Payable and Bond Premiums

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

K. Net Position

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

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

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The purpose of the restriction is reported on the face of the balance sheet. The Authority had no restricted net position at December 31, 2017 or 2016.

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

**TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Power Generation Revenue

The Authority entered into a new power purchase and sale agreement with the City of Santa Clara, California through its municipal electric utility, Silicon Valley Power, which began on January 1, 2017. Under the agreement, the Authority agrees to sell the net electrical output and installed capacity of its power generating facility (the Southern Powerhouse) to the City through December 31, 2023, including electrical energy, capacity attributes and any renewable energy credits and environmental attributes of the power generating facility. Under the agreement, the Authority will receive a fixed contract price per megawatt hour (MWh) as summarized in the agreement. The contract price includes scheduled increases ranging from 2.6% to 4.4% each year from 2018 through 2021 when the price is fixed through the remaining term of the agreement.

M. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The commercial insurance is subject to a deductible. No significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended December 31, 2017 and 2016. There have been no claims for the past three years. There were no significant reductions in insurance coverage from the prior year.

NOTE 2 – CASH AND INVESTMENTS

A. Classification

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

	2017	2016
Deposits with financial institutions	\$7,880,096	\$1,882,776
Money market mutual funds		1,021,567
Local Agency Investment Fund (LAIF)	1,023,788	1,494
Total unrestricted cash and cash equivalents	8,903,884	2,905,837
Total Cash and Investments	\$8,903,884	\$2,905,837

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

	2017	2016
Cash and investments under GASB 40		
Deposits with financial institutions	\$7,880,096	\$1,882,776
Total cash and deposits	7,880,096	1,882,776
Money market mutual funds		1,021,567
Local Agency Investment Fund (LAIF)	1,023,788	1,494
Total investments	1,023,788	1,023,061
Total Cash and Investments	\$8,903,884	\$2,905,837

**TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. Investment Policy

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

The Authority’s permissible investments included the following instruments:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in one Issuer</u>
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 Authority complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements as of December 31, 2017.

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. The Authority’s investment policy does not contain any provisions limiting interest rate risk that are more restrictive than what is specified in the California Government Code.

The Authority’s only investment as of December 31, 2017 was in the State of California’s Local Agency Investment Fund. The average maturity of the fund was 186 days as of December 31, 2017.

D. Fair Value Hierarchy

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

Cash in bank is measured at cost, while investments in LAIF are considered to be an external investment pool that is measured at fair value and exempt in the fair value hierarchy under GASB 72.

TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

E. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority's investment in LAIF is not evidenced by specific securities, and credit risk is considered minimal.

F. Concentration of Credit Risk

The investment policy of the Authority limits the amount that can be invested in any one issuer to the amounts specified by the California Government Code. The California Government Code limits the amount that may be invested in any one issuer, as disclosed in the preceding table. GASB Statement No. 40 requires disclosure of investments with one issuer exceeding 5% of total investments, with the exception of U.S. Treasury obligations, U.S. Agency Securities and external investment pools.

G. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At December 31, 2017 and 2016, respectively, the carrying amounts of the Authority's deposits were \$7,880,096 and \$1,882,776, respectively, and the balances in financial institutions were \$7,880,216 and \$1,902,485, respectively. Of the balance in financial institutions at December 31, 2017 and 2016, \$250,000 was covered by federal depository insurance each year and the remaining amounts were secured by a pledge of securities by the financial institution, but not in the name of the Authority.

H. 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, 2017 by all public agencies in LAIF is \$74,234,870,164 managed by the State Treasurer. Of that amount, 98.35% is invested in non-derivative financial products and 1.65% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on a fair value basis.

TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 3 – CAPITAL ASSETS

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

	Balance at January 1, 2017	Additions	Transfers	Balance at December 31, 2017
Capital assets not being depreciated:				
Construction in progress	\$3,395	\$10,849		\$14,244
	<u>3,395</u>	<u>10,849</u>		<u>14,244</u>
Capital assets being depreciated:				
Hydroelectric production facilities	19,137,266			19,137,266
Conveyance tunnel	22,123,528			22,123,528
Roads and bridges	1,510,573			1,510,573
Other equipment	2,545,156			2,545,156
Total capital assets being depreciated, net	<u>45,316,523</u>			<u>45,316,523</u>
Accumulated depreciation:				
Hydroelectric production facilities	(10,503,580)	(244,625)		(10,748,205)
Conveyance tunnel	(6,745,136)	(221,235)		(6,966,371)
Roads and bridges	(466,715)	(16,310)		(483,025)
Other equipment	(2,368,454)	(25,969)		(2,394,423)
Total accumulated depreciation	<u>(20,083,885)</u>	<u>(508,139)</u>		<u>(20,592,024)</u>
Capital assets depreciated, net	<u>25,232,638</u>	<u>(508,139)</u>		<u>24,724,499</u>
Capital assets, net	<u>25,236,033</u>	<u>(\$497,290)</u>		<u>\$24,738,743</u>
	Balance at			Balance at
	January 1, 2016	Additions	Transfers	December 31, 2016
Capital assets not being depreciated:				
Construction in progress		\$43,207	(\$39,812)	\$3,395
		<u>43,207</u>	<u>(39,812)</u>	<u>3,395</u>
Capital assets being depreciated:				
Hydroelectric production facilities	\$19,097,454		39,812	19,137,266
Conveyance tunnel	22,123,528			22,123,528
Roads and bridges	1,510,573			1,510,573
Other equipment	2,545,156			2,545,156
Total capital assets being depreciated, net	<u>45,276,711</u>		<u>39,812</u>	<u>45,316,523</u>
Accumulated depreciation:				
Hydroelectric production facilities	(10,260,546)	(243,034)		(10,503,580)
Conveyance tunnel	(6,523,901)	(221,235)		(6,745,136)
Roads and bridges	(450,401)	(16,314)		(466,715)
Other equipment	(2,342,105)	(26,349)		(2,368,454)
Total accumulated depreciation	<u>(19,576,953)</u>	<u>(506,932)</u>		<u>(20,083,885)</u>
Capital assets depreciated, net	<u>25,699,758</u>	<u>(506,932)</u>	39,812	<u>25,232,638</u>
Capital assets, net	<u>\$25,699,758</u>	<u>(\$463,725)</u>		<u>\$25,236,033</u>

**TRI-DAM POWER AUTHORITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 4 – NET POSITION

A. Commitments

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

	2017	2016
Maintenance reserve:		
For replacement and maintenance expenditures on water storage and delivery systems and hydroelectric generation facilities.	\$20,972	\$20,267
Operating reserve:	1,000,000	1,000,000
Total committed net position	\$1,020,972	\$1,020,267

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

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

NOTE 5 – DISTRIBUTIONS TO MEMBER DISTRICTS

The Authority made cash distributions to Member Districts from surplus funds in the total amount of \$1,384,000 (\$692,000 each) for the year ended December 31, 2017.

NOTE 6 – CONTINGENCIES

A. Claims

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

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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 Commissioners
Tri-Dam Power Authority
Strawberry, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Tri-Dam Power Authority (Authority), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2018. Our report included a change in accounting principles paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated April 11, 2018 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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze + Associates

Pleasant Hill, California
April 11, 2018