TRI-DAM PROJECT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

PREPARED BY THE FINANCE DEPARTMENT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Tri-Dam Project (the Project) as of and for the years ended December 31, 2018 and 2017 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, 2018 and 2017, 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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Change in Accounting Principles

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended December 31, 2018 and required a restatement to the beginning net position as discussed in Note 1R to the financial statements:

> *Statement No. 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions.* See Note 8 to the financial statements for relevant disclosures.
>
> *Statement No. 85 – Omnibus 2017.* See Note 8 to the financial statements for relevant disclosures.

The emphasis of these matters does not constitute a modification to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 11, 2019, 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 11, 2019

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TRI-DAM PROJECT
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of the Tri-Dam Project's (Project) financial position as of December 31, 2018 and 2017, and the Project's financial performance for the years then ended. Condensed financial information for 2016 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 was down significantly during 2018 versus the 2017, primarily because of several unexpected outages at the Project's Donnells power plant, and lower precipitation within the Stanislaus River watershed. Generation for the year totaled 294,000 megawatt hours (MWh), a significant decline from 2017 total generation of 656,000 MWh, and well below historical average generation of approximately 449,000 MWh.
- The Donnells plant is the Project's largest plant and suffered several unplanned outages caused by a recurring thrust bearing failure. Overall, the plant was down a total of 83 days due to the thrust bearing issue.
- The decline in generation led to significantly lower operating revenues, which totaled $21.7 million for the year, as compared to $48.5 million during 2017.
- Operating expenses totaled $9.3 million, a decline of $1.6 million from the prior year. The decline is attributable to the significant cost of repairs to forest access roads damaged during 2017. Other than the Donnells thrust bearing repair costs, the Project did not incur any significant one-time operating expenses during the current year.
- Nonoperating revenues increased considerably to $1.8 million from $632,000 during 2017. The increase was almost entirely a result of FEMA reimbursements received in 2018 for the road damage incurred during 2017.
- Nonoperating expenses decreased $85,000 to $1.9 million as a result of lower costs associated with river habitat studies and the related legal fees incurred to defend the Oakdale and South San Joaquin Irrigation Districts' (the Districts) water rights on the Stanislaus River.
- Total net position declined by $8.8 million, from $89.2 million (as restated) at January 1, 2018, to $80.3 million at December 31, 2018. The decline is attributable to cash distributions to the Districts totaling $21.1 million compared to net revenues of only $12.3 million.
- Net position at the beginning of the year was restated as a result of the implementation of GASB 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions.* GASB 75 is a change in accounting rules for other post-employment benefits (OPEB) and had the non-cash effect of reducing the Project's beginning of the year net position by $802,000.

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 2018 and 2017 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 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, 2018, 2017 and 2016.

	Condensed Balance Sheets				
	2018	2017	Increase (Decrease)	2016	Increase (Decrease)
Assets and Deferred Outflows					
Current Assets	$ 12,282,763	$ 23,156,234	$ (10,873,471)	$ 28,480,203	$ (5,323,969)
Noncurrent Investments	8,788,768	8,795,327	(6,559)	-	8,795,327
Capital Assets, Net	63,334,217	64,082,991	(748,774)	62,948,188	1,134,803
Deferred Outflows	4,182,070	1,498,764	2,683,306	1,277,349	221,415
Total Assets & Deferred Outflows	$ 88,587,818	$ 97,533,316	$ (8,945,498)	$ 92,705,740	$ 4,827,576
Liabilities					
Current Liabilities	$ 886,106	$ 1,138,336	$ (252,230)	$ 651,086	$ 487,250
Noncurrent Liabilities	7,097,221	6,164,420	932,801	5,302,736	861,684
Deferred Inflows	270,021	277,700	(7,679)	296,517	(18,817)
Total Liabilities & Deferred Inflows	8,253,348	7,580,456	672,892	6,250,339	1,330,117
Net Position					
Investment in Capital Assets	63,334,217	64,082,991	(748,774)	62,948,188	1,134,803
Unrestricted	17,000,253	25,869,869	(8,869,616)	23,507,213	2,362,656
Total Net Position	80,334,470	89,952,860	(9,618,390)	86,455,401	3,497,459
Total Liabilities, Deferred Inflows & Net Position	$ 88,587,818	$ 97,533,316	$ (8,945,498)	$ 92,705,740	$ 4,827,576

Assets and Deferred Outflows of Resources
2018 compared to 2017

Current assets decreased considerably during the year, 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 July and January. Net cash flow excluding District distributions totaled only $14.4 million, versus nearly $34.0 million in 2017.

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. In addition, the Project's Board of Directors approved a $3.0 million payment to the California Public Employees' Retirement System (CalPERS) to help pay down the Project's unfunded accrued pension liability. This cash payment increased deferred outflows of resources, which is similar to a noncurrent asset, by an identical amount.

Other accounts receivable included in current assets and owed to the Project in the normal course of business included $351,000 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 2.2% from the prior year.

Noncurrent 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, and upgraded generator management relays at the Tulloch powerhouse.

Capital assets also include the Project's Federal Energy Regulatory Commission (FERC) license, an intangible asset totaling $6.3 million, net of accumulated amortization of $1.9 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 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, 2018. 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 is attributable to a $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 over $4.0 million in interest costs over the lives of the corresponding pension bases.

2017 compared to 2016

Current assets decreased $5.3 million during 2017 as a result of a change in the Project's investment program that extended the average maturity of a portion of the marketable securities portfolio. This change resulted in $8.8 million of investments in marketable securities being classified as noncurrent assets. Total cash and equivalents, current investments, and noncurrent investments - all unrestricted - actually increased $2.5 million during 2017. The increase in cash and total investments in marketable securities was a result of substantially greater cash flow from power generation during the second half of 2017 relative to the second half of 2016.

Current assets also included a $3.2 million power generation receivable owed from the City of Santa Clara, California, a $1.1 million increase from the prior year. The increase in the power generation receivable was because of stronger generation in December 2017 than during December 2016. Current assets also included $344,000 in headwater benefits owed from PG&E.

Capital assets, net of accumulated depreciation and amortization, increased $1.1 million as a result of capital asset additions of approximately $3.4 million, a reclassification of $316,000, and depreciation and amortization of $1.9 million.

Liabilities and Deferred Inflows of Resources

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 accounted for in the financial statements of governmental agencies. The net effect to the Project has been a non-cash increase of $986,000 in the Project's OPEB liability versus the prior year. The Project did not restate its 2017 financial position, but did restate the 2018 opening net position. See footnote 8 for additional information on GASB 75.

The largest noncurrent liability remains the Project's net pension liability, which totaled $5.7 million as of December 31, 2018. The net pension liability declined slightly during 2018; however, as previously mentioned, the Project made a $3.0 million payment during 2018 to pay down the pension liability. That payment does not directly change the balance of the net pension liability until CalPERS performs a recalculation of the pension liability as of June 30, 2019. Instead, the payment increased deferred outflows of resources by $3.0 million. 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 represent various components related to the Project's net pension liability, including changes in the calculation methodologies and assumptions used by CalPERS. Deferred inflows of resources, all pension related, totaled $270,000, a decline of $8,000 versus the prior year.

2017 compared to 2016

Total liabilities and deferred inflows of resources increased $1.3 million during 2017, totaling $7.6 million at the end of the year. Current liabilities totaled $1.1 million as of December 31, 2017, an increase of $487,000 from December 31, 2016. The increase was primarily because of a $389,000 increase in accounts payable in the normal course of business. Other increases in current liabilities included the current portion of compensated absences (vacation and sick leave) and various performance deposits from Lake Tulloch homeowners, both of which increased by approximately $34,000 to $226,000 and $131,000, respectively. Current liabilities also included $90,000 due to FERC for headwater benefits related to New Melones Dam, located upstream from the Project's Lake Tulloch hydroelectric facilities.

Noncurrent liabilities included the Project's net pension liability, other postemployment benefits, and the noncurrent portion of compensated absences. Noncurrent liabilities totaled $6.2 million at December 31, 2017, an increase of $862,000 from 2016. The largest noncurrent liability is the Project's net pension liability that totaled $5.7 million, an increase of $778,000 from the prior year.

Other noncurrent liabilities consisted of the estimated noncurrent portion of compensated absences that totaled $224,000, an increase of $46,000 from the prior year, and other postemployment benefits totaling $203,000, an increase of $38,000. Deferred inflows of resources, all pension related, totaled $278,000, a decline of $19,000 versus the prior year.

Net Position

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.

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.

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. The Project typically makes semi-annual distributions in January and July, and the January distribution is a function of cash flow experienced during the second half of the prior year.

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.

2017 compared to 2016

Total net position ended 2017 at $90.0 million, an increase of $3.5 million from the prior year. Net position at the end of 2017 was broken down between investment in capital assets of $64.1 million, an increase of $1.1 million, and unrestricted net position of $25.9 million, an increase of $2.4 million.

The Project's change in net position (net income) exceeded discretionary cash distributions to the Member Districts for the second year in a row, after several years where distributions exceeded the change in net position. Favorable hydrology during the past two years and the related increase in generation revenue was the primary reason for the improvement.

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 2018, 2017 and 2016.

	Condensed Statement of Revenues, Expenses and Changes in Net Position				
	2018	2017	Increase (Decrease)	2016	Increase (Decrease)
Operating Revenues	$ 21,651,773	$ 48,458,414	$ (26,806,641)	$ 33,800,302	$ 14,658,112
Operating Expenses	9,282,683	10,859,466	(1,576,783)	8,001,913	2,857,553
Net Operating Revenue (Expense)	12,369,090	37,598,948	(25,229,858)	25,798,389	11,800,559
Nonoperating Revenues	1,810,213	632,472	1,177,741	752,644	(120,172)
Nonoperating Expenses	1,876,310	1,960,961	(84,651)	1,589,299	371,662
Net Nonoperating Revenue (Expense)	(66,097)	(1,328,489)	1,262,392	(836,655)	(491,834)
Change in Net Position	12,302,993	36,270,459	(23,967,466)	24,961,734	11,308,725
Net Position, Beginning of Year	89,150,477	86,455,401	2,695,076	77,411,843	9,043,558
Less: Distributions to Member Districts	(21,119,000)	(32,773,000)	11,654,000	(15,918,176)	(16,854,824)
Net Position, End of Year	$ 80,334,470	$ 89,952,860	$ (9,618,390)	$ 86,455,401	$ 3,497,459

Note: Net Position, Beginning of Year for 2018 restated due to GASB 75

Operating Revenues
2018 compared to 2017
Power generation revenue during 2018 totaled $21.3 million, significantly below 2017 total generation revenue of $48.1 million. Although 2018 precipitation and snowpack levels were near average, the Project suffered a significant loss of revenue due to the extended unplanned outages at the Donnells power plant. Lost revenue during these outages is estimated to total approximately $7.2 million. Although the Project maintains business interruption insurance, and is pursuing recovery through its insurer, policy deductibles will limit recovery to less than the estimated lost revenue. Other operating revenue included headwater benefit fees from PG&E, which totaled $351,000.

2017 compared to 2016
Power generation revenue during 2017 was the greatest in Tri-Dam's history, totaling $48.1 million. For the year, the Project generated 656,000 MWh, as precipitation and snowpack levels for the 2016-17 water year nearly eclipsed the Project's record water year of 1982-83. Precipitation at the Beardsley powerhouse totaled over 76 inches, and Beardsley Dam did not stop spilling until early August, approximately 40 days later than normal. The Project also again benefited from the scheduled price increase as part of its contract with the City of Santa Clara. Other operating revenue included headwater benefit fees from PG&E, which totaled $344,000.

Nonoperating Revenues
2018 compared to 2017
Nonoperating revenues are generally realized from ancillary types of activities unrelated to power generation, and include reimbursements for operation and maintenance activities performed by the Project on behalf of other governmental entities, water sales, investment income, rental income, and permitting fees. 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. Additional reimbursements approximating $800,000 remain outstanding and Tri-Dam anticipates receiving these funds during 2019.

Other recurring 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 below New Melones Dam, and are calculated based upon a set number of hours and prevailing Tri-Dam wage and overhead rates. During 2018, reimbursements from SEWD and the USBR totaled $190,000, unchanged from the prior year.

Water sales totaled $167,000 during 2018, an increase of $25,000 from 2017. 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 $261,000, well above 2017 investment earnings of $108,000. The improvement in investment income is because of higher average investment balances, and the decline in market yields during the year, which had the effect of increasing the market value of existing securities held in the Project's portfolios. During 2018, the Project enjoyed a positive mark-to-market of the investment portfolio of $6,000, versus the prior year negative mark-to-market of $84,000.

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 2018, rental income totaled $95,000, unchanged from the prior year.

2017 compared to 2016

For 2017, nonoperating revenues declined $120,000 from $753,000 to $632,000. The decline was primarily because of a one-time grant received during 2016, partially offset by increases in water sales and investment earnings. Revenue from water sales totaled $142,000, an increase of $9,000, while investment earnings totaled $108,000, an increase of $15,000 from the prior year.

Operating Expenses

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. The decline in operating expenses is primarily attributable to the significant road repair costs incurred during 2017.

Total labor costs increased $169,000, or 4.2%, during 2018. However, this increase includes the non-cash pension expense recorded under GASB 68 and the non-cash OPEB expense recorded under GASB 75. Excluding the effects of GASB 68 and GASB 75, total labor costs rose $279,000, or 8.8%, to $3.5 million. The increase in labor costs excluding GASB 68 and GASB 75 is primarily due to the substantial amount of overtime incurred in response to the unplanned Donnells plant outages, as well as the addition of staff in both the operations and maintenance departments.

Other operating expense declined sharply during 2018 due to the substantial costs incurred in 2017 to repair Donnells access roads and 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. Partially offsetting the decline in road repair costs was the increase in expense resulting from the Donnells unplanned outages, which totaled approximately $242,000.

Depreciation and amortization expense rose $132,000 to $2.0 million. The increase is because of the addition of numerous capital assets placed in service during the year.

2017 compared to 2016

The Project experienced a considerable increase in operating expenses during 2017, primarily in response to the severe winter storms and corresponding road damage. The January and February rains caused several slides and washouts that rendered some of the Project's access roads impassable. As a result, the Project incurred significant repair costs, including significant in-house labor costs, to either fully repair sections of these roads or return them to a minimally acceptable, temporary condition. Other indirect costs resulting from the road damage included, among other things, the cost to periodically fly crews to Donnells Dam via helicopter.

Although Tri-Dam does not own the road to the Donnells facilities, the Project is required to maintain these roads pursuant to a road maintenance agreement with the U.S. Forest Service and, from a practical standpoint, access to the facilities needed to be restored relatively quickly in order to maintain operations and maintenance activities.

In addition to the Donnells 4700 Road damage, the access road to the Project's Tulloch third generating unit was completely destroyed during the spring runoff. Total costs incurred to remove a portion of the road and re-channel water from the Tulloch Dam spillway totaled $225,000 during 2017.

Total operating expenses increased $2.9 million during 2017. Excluding depreciation and amortization, and the non-cash effects of GASB 68, operating expenses rose a similar amount. Labor and overhead costs, excluding non-cash pension expense related to GASB 68, rose $113,000, over 2016 labor and overhead.

Depreciation and amortization expense declined $585,000 to $1.9 million. Although the Project placed several large capital assets in service, depreciation expense declined due to a one-time adjustment to the expected lives on several large assets during 2016.

Nonoperating Expenses
2018 compared to 2017
Nonoperating expenses represent the operation and maintenance costs of Goodwin Dam, and various ongoing studies (and the related legal costs) associated with monitoring the Stanislaus River fish habitat and defending the Districts' water rights. The Project expects to incur significant nonoperating expenses associated with river habitat studies for the foreseeable future. Nonoperating expenses totaled $1.9 million during 2017, 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. 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.

2017 compared to 2016
Nonoperating expenses totaled $2.0 million in 2017, an increase of $372,000 from 2016 nonoperating expenses of $1.6 million. River habitat studies and related legal costs increased by $495,000, primarily because of the initiation of a new nonnative predation study on the Stanislaus River, in addition to continuing costs associated with negotiating and defending proposed flow requirements with various state and federal agencies having jurisdiction on the river. Goodwin Dam expenses totaled $275,000, a decline of $40,000 from the prior year.

CAPITAL ASSETS

The following table illustrates the Project's capital assets as of December 31, 2018 and 2017.

CAPITAL ASSETS

	2018	2017	Increase (Decrease)
Land	$ 1,500,800	$ 1,500,800	$ -
Construction in progress	339,678	318,708	20,970
Intangible asset - FERC license	8,213,938	8,213,938	-
Dams and power plants	87,862,992	87,862,992	-
Power plant equipment	8,632,647	8,381,184	251,463
Telemetry equipment	3,026,194	3,026,194	-
Buildings	947,193	947,193	-
Other equipment	4,026,984	3,145,705	881,279
Total Capital Assets	114,550,426	113,396,714	1,153,712
Less: accumulated depreciation	(51,216,209)	(49,313,723)	(1,902,486)
Net Capital Assets	$ 63,334,217	$ 64,082,991	$ (748,774)

Capital assets net of accumulated depreciation decreased $749,000 to $63.3 million at the end of 2018. The decline resulted from capital asset additions of $1.3 million, regular depreciation of $1.8 million, amortization of intangible capital assets of $234,000, and disposals of $137,000.

The largest capital asset additions during 2018 included a new grader totaling $274,000, a new excavator totaling $177,000, a new loader totaling $163,000, and upgraded generator management relays at the Tulloch powerhouse totaling $161,000.

EXPECTATIONS FOR 2019

The 2018-19 water year has started strong with precipitation and snow pack well above average through the month of March. Accordingly, generation is expected to also be strong for 2019, and management expects to exceed budgeted generation revenue of $33.9 million. The Project expects to initiate several large projects during 2019, including repair work to the Beardsley Afterbay Dam, repair to the Tulloch third generating unit access road, and the start of a new recreation facility at Lake Tulloch. These three projects have been budgeted a total of $3.3 million, although at least some of these expenditures may ultimately be made in future years. The Project also expects to continue to incur significant costs on river habitat studies, defending the Districts' water rights, 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, 2018 AND 2017

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 2)	$9,339,410	$16,080,986
Short-term investments (Note 2)	1,184,830	2,959,317
Accounts receivable (Note 1G):		
Headwater benefit fees, PG&E	351,252	343,651
Power generation receivable	748,278	3,162,080
Services receivable, Tri-Dam Power Authority	103,107	101,624
Other	262,794	231,824
Accrued interest receivable	74,250	69,578
Prepaid expenses and other assets	218,842	207,174
Total Current Assets	12,282,763	23,156,234
Noncurrent Assets:		
Long-term investments (Note 2)	8,788,768	8,795,327
Capital Assets (Note 3):		
Not depreciated	1,840,478	1,819,508
Depreciated, net:		
Intangible asset - FERC license, net	6,305,361	6,538,893
Other capital assets depreciated, net	55,188,378	55,724,590
Total depreciated, net	61,493,739	62,263,483
Total Capital Assets	63,334,217	64,082,991
Total Assets	84,405,748	96,034,552
DEFERRED OUTFLOWS OF RESOURCES		
Pension related (Note 7)	4,182,070	1,498,764
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$88,587,818	$97,533,316
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable	$328,927	$585,493
Accrued salaries and benefits	73,033	69,259
Unearned revenues (Note 1J)	45,055	36,897
Deposits	115,635	130,564
Due to the Federal Energy Regulatory Commission	90,400	90,270
Compensated absences, current portion (Note 4)	233,056	225,853
Total Current Liabilities	886,106	1,138,336
Noncurrent Liabilities:		
Compensated absences, noncurrent portion (Note 4)	242,568	224,375
Total other postemployment benefits liability (Note 4 & 8)	1,189,216	203,355
Net pension liability (Note 7)	5,665,437	5,736,690
Total Noncurrent Liabilities	7,097,221	6,164,420
Total Liabilities	7,983,327	7,302,756
DEFERRED INFLOWS OF RESOURCES		
Pension related (Note 7)	270,021	277,700
NET POSITION (Note 1N)		
Net investment in capital assets	63,334,217	64,082,991
Unrestricted	17,000,253	25,869,869
Total Net Position	80,334,470	89,952,860
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$88,587,818	$97,533,316

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, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Power generation revenues (Note 1O)	$21,300,521	$48,114,763
Headwater benefit fees	351,252	343,651
Total Operating Revenues	21,651,773	48,458,414
OPERATING EXPENSES		
Operations	1,383,884	1,513,358
Maintenance	2,356,597	4,666,446
General and administrative	3,502,683	2,772,515
Depreciation and amortization (Note 3)	2,039,519	1,907,147
Total Operating Expenses	9,282,683	10,859,466
NET INCOME FROM OPERATIONS	12,369,090	37,598,948
NONOPERATING REVENUES (EXPENSES)		
Reimbursements	189,729	189,119
Water sales	167,417	142,008
Rental of equipment and facilities	95,067	94,794
Investment earnings	261,214	107,921
Other nonoperating revenue	1,085,627	82,942
River habitat studies	(1,593,254)	(1,686,200)
Goodwin Dam expenses	(283,056)	(274,761)
Gain on disposal of capital assets	11,159	15,688
Total Nonoperating revenues (expenses)	(66,097)	(1,328,489)
CHANGE IN NET POSITION	12,302,993	36,270,459
NET POSITION, BEGINNING OF YEAR AS RESTATED, NOTE 1R	89,150,477	86,455,401
Less: distributions to Districts (Note 6)	(21,119,000)	(32,773,000)
NET POSITION, END OF YEAR	$80,334,470	$89,952,860

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

TRI-DAM PROJECT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	$23,714,323	$47,025,405
Other operating receipts	311,198	488,260
Cash payments to suppliers for goods and services	(3,347,749)	(4,581,794)
Cash payments to and on behalf of employees for services	(6,719,880)	(3,268,351)
Cash Flows from Operating Activities	13,957,892	39,663,520
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Districts	(21,119,000)	(32,773,000)
Other net nonoperating revenues and expenses	(327,311)	(1,328,489)
Net Cash Used for Noncapital Financing Activities	(21,446,311)	(34,101,489)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,290,745)	(3,357,740)
Proceeds from sale of capital assets	11,159	15,688
Net Cash Used for Capital and Related Financing Activities	(1,279,586)	(3,342,052)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(3,493,221)	(30,585,165)
Proceeds from sales and maturities of investment securities	5,280,355	29,562,989
Interest received	239,295	28,925
Net Cash Used for Investing Activities	2,026,429	(993,251)
NET CASH FLOWS	(6,741,576)	1,226,728
Cash and cash equivalents at beginning of year	16,080,986	14,854,258
Cash and cash equivalents at end of year	$9,339,410	$16,080,986
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from operations	$12,369,090	$37,598,948
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,039,519	1,907,147
Changes in operating assets and liabilities:		
Power generation receivable	2,413,802	(1,089,358)
Other receivables	(40,054)	144,609
Prepaid expenses and other assets	(11,668)	(6,528)
Deferred outflows/inflows of resources, net pension liability - pensions	(2,762,238)	537,334
Accounts payable	(256,566)	388,509
Accrued salaries and benefits	3,774	5,381
Unearned revenue	8,158	26,169
Unearned deposits	(14,929)	33,653
Due to FERC	130	
Compensated absences	25,396	79,696
Other postemployment benefits	183,478	37,960
Cash Flows from Operating Activities	$13,957,892	$39,663,520

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 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

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

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 and to the Project's other post-employment benefits plan under GASB Statement No. 75 as described in Note 7 and 8, respectively.

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, 2018 and 2017 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 employees allows employees to accumulate unused vacation, subject to policy limits, and sick leave. 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 2018 and 2017 were $72 and $69 per MWh, respectively. The contract price includes scheduled increases ranging from 2.6% to 4.2% each year from 2018 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, 2018 and 2017. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from the prior year.

Q. Related Party Transactions

Significant related party transactions consist primarily of cash distributions to and contributions from the 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. New Accounting Pronouncements

Management adopted the provisions of the following Governmental Accounting standards Board (GASB) Statements, which became effective during the year ended December 31, 2018.

GASB Statement No. 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions – The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This pronouncement required the Project to make a prior period adjustment, and as a result the beginning net position of the Project was restated and reduced by $802,383. See Note 8 for additional information.

GASB Statement No. 85 – Omnibus 2017 - The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other post-employment benefits).

S. Reclassification

For the year ended December 31, 2018, certain classifications have been changed to improve financial statement presentation in the Supporting Schedules of Expenses. For comparative purposes, prior year balances have been reclassified to conform with the fiscal year 2018 presentation.

NOTE 2 – CASH AND INVESTMENTS

A. Classification

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

	2018	2017
Cash and cash equivalents:		
Cash on hand	$300	$300
Deposits with financial institutions	9,128,182	15,783,466
Money market mutual funds	205,041	291,432
Local Agency Investment Fund (LAIF)	5,887	5,788
Total unrestricted cash and cash equivalents	9,339,410	16,080,986
Investments		
Investments held by US Bank	9,973,598	11,754,644
Total investments	9,973,598	11,754,644
Total cash and investments	$19,313,008	$27,835,630

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

	2018	2017
Cash and investments under GASB 40		
Cash on hand	$300	$300
Deposits with financial institutions	9,128,182	15,783,466
Total cash and deposits	9,128,482	15,783,766
U.S. agency securities	9,973,598	11,460,004
Medium term corporate notes		294,640
Money market mutual funds	205,041	291,432
Local Agency Investment Fund (LAIF)	5,887	5,788
Total investments	10,184,526	12,051,864
Total cash and investments	$19,313,008	$27,835,630

B. *Investment Policy*

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
California Local Agency Debt	5 years	None	None
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, 2018 and 2017, respectively.

NOTE 2 – CASH AND INVESTMENTS (Continued)

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.

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, 2018:

		Remaining Maturity		
	Total	12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. Agency Securities	$9,973,598	$1,184,830	$2,190,750	$6,598,018
Money Market Mutual Funds	205,041	205,041		
LAIF	5,887	5,887		
Total	$10,184,526	$1,395,758	$2,190,750	$6,598,018

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, 2018.

		Minimum	Ratings as of Year End		
	Total	Legal Rating	AAA/Aaa	AA+/Aa1	Not Rated
U.S. Agency Securities	$9,973,598	N/A		$9,973,598	
Money Market Mutual Funds	205,041	AAA/Aaa	$205,041		
LAIF	5,887	N/A			$5,887
	$10,184,526		$205,041	$9,973,598	$5,887

NOTE 2 – CASH AND INVESTMENTS (Continued)

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, 2018:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	U.S. Agency Securities	$3,115,750
Federal Home Loan Bank	U.S. Agency Securities	3,659,781
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	790,064
Federal National Mortgage Association	U.S. Agency Securities	2,408,003

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, 2018 and 2017, the carrying amounts of the Project's deposits were $9,128,482 and $15,783,766 and the balances in financial institutions were $9,442,154 and $16,201,311, respectively. Of the balances in financial institutions, $250,000 at December 31, 2018 and 2017 was covered by federal depository insurance each year and the remaining amounts were secured by a pledge of securities by the financial institution, but not in the name of the Project.

NOTE 2 – CASH AND INVESTMENTS (Continued)

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, 2018 by all public agencies in LAIF is $83,431,193,823, which is managed by the State Treasurer. Of that amount, 99.04% is invested in non-derivative financial products and 0.96% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the Project's investment in this pool is reported in the accompanying financial statements at amounts based upon the Project's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

H. Fair Value Hierarchy

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

The following is a summary of the fair value hierarchy of the fair value of investments of the Project as of December 31, 2018:

Investments by Fair Value Level:	Level 1	Level 2	Exempt	Total
U.S. Agency Securities				
Federal Farm Credit Bank		$3,115,750		$3,115,750
Federal Home Loan Bank		3,659,781		3,659,781
Federal Home Loan Mortgage Corporation		790,064		790,064
Federal National Mortgage Association		2,408,003		2,408,003
Local Agency Investment Fund			$5,887	5,887
Money Market Mutual Funds	$205,041			205,041
Total investments	$205,041	$9,973,598	$5,887	10,184,526
Cash in banks and on hand				9,128,482
Total Cash and Investments				$19,313,008

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, 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

	Balance at January 1, 2017	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2017
Capital assets not being depreciated:					
Land	$1,500,800				$1,500,800
Construction in progress	533,878	$3,206,868	($315,792)	($3,106,246)	318,708
Total capital assets not being depreciated	2,034,678	3,206,868	(315,792)	(3,106,246)	1,819,508
Capital assets being depreciated:					
Intangible asset-FERC License	8,213,938				8,213,938
Dams and power plants	87,826,845	22,818		13,329	87,862,992
Power plant equipment	5,779,426	42,373		2,559,385	8,381,184
Telemetry equipment	2,751,866			274,328	3,026,194
Buildings	947,193				947,193
Other equipment	2,800,818	85,683		259,204	3,145,705
Total capital assets being depreciated	108,320,086	150,874		3,106,246	111,577,206
Accumulated depreciation/amortization:					
Intangible asset-FERC License	(1,441,513)	(233,532)			(1,675,045)
Dams and power plants	(38,821,542)	(1,210,897)			(40,032,439)
Power plant equipment	(2,317,543)	(184,548)			(2,502,091)
Telemetry equipment	(1,824,436)	(115,018)			(1,939,454)
Buildings	(724,100)	(23,740)			(747,840)
Other equipment	(2,277,442)	(139,412)			(2,416,854)
Total accumulated depreciation/amortization	(47,406,576)	(1,907,147)			(49,313,723)
Total capital assets being depreciated, net	60,913,510	(1,756,273)		$3,106,246	62,263,483
Capital assets, net	$62,948,188	$1,450,595	($315,792)		$64,082,991

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, 2018 (as restated)	Additions	Repayments	Balance at December 31, 2018	Due within One Year
Compensated absences	$450,228	$208,846	($183,450)	$475,624	$233,056
Other postemployment benefits	1,005,738	192,517	(9,039)	1,189,216	
	$1,455,966	$401,363	($192,489)	$1,664,840	$233,056

	Balance at January 1, 2017	Additions	Repayments	Balance at December 31, 2017	Due within One Year
Compensated absences	$370,532	$225,762	($146,066)	$450,228	$225,853
Other postemployment benefits	165,395	55,272	(17,312)	203,355	
	$535,927	$281,034	($163,378)	$653,583	$225,853

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:

	2018	2017
Maintenance Reserve	$7,034,142	$6,025,000
Operating Reserve	3,144,497	6,000,000
Total committed net position	$10,178,639	$12,025,000

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 2017, none of the maintenance reserve was spent. 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.

The operating reserve was established at $6 million by Board resolution in a prior year. During 2018, $3.0 million of the operating reserve was used to pay down the Project's unfunded accrued pension liability with CalPERS.

NOTE 6 – DISTRIBUTIONS TO DISTRICTS

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

	2018	2017
Oakdale Irrigation District	$10,559,500	$16,386,500
South San Joaquin Irrigation District	10,559,500	16,386,500
Total distributions to Districts	$21,119,000	$32,773,000

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

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:

	2018		2017	
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	7.946%	6.250%	7.944%	6.250%
7/1 - 12/31	7.948%	6.250%	7.946%	6.250%
Required employer contribution rates:				
1/1 - 6/30	10.110%	6.533%	10.069%	6.555%
7/1 - 12/31	10.609%	6.842%	10.110%	6.533%

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

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:

	2018			2017		
	Miscellaneous Plan	PEPRA Miscellaneous Plan	Total	Miscellaneous Plan	PEPRA Miscellaneous Plan	Total
Contributions - employer	$3,500,979	$52,175	$3,553,154	$437,439	$38,461	$475,900
Contributions - employee (paid by employer)	105,423		105,423	105,642		105,642
	$3,606,402	$52,175	$3,658,577	$543,081	$38,461	$581,542

The Project also made a lump-sum payment towards the unfunded liability in the amount of $3 million in fiscal year 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:

	2018	2017
	Proportionate Share of Net Pension Liability	Proportionate Share of Net Pension Liability
Miscellaneous Plan	$5,665,437	$5,736,690
Total Net Pension Liability	$5,665,437	$5,736,690

NOTE 7 – PENSION PLANS (Continued)

The Project's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans as of December 31, 2018 and 2017 is measured as of June 30, 2018 and 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and 2016 rolled forward to June 30, 2018 and 2017, 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:

	2018 Miscellaneous Plan	2017 Miscellaneous Plan
Proportionate - June 30, 2017	0.145526%	
Proportionate - June 30, 2018	0.124910%	
Change - Increase (Decrease)	-0.020616%	
Proportionate - June 30, 2016		0.142750%
Proportionate - June 30, 2017		0.145526%
Change - Increase (Decrease)		-0.000113%

For the years ended December 31, 2018 and 2017 the Project recognized pension expense of $546,849 and $1,118,876 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:	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$3,437,779		$364,468	
Differences between actual and expected experience	10,556	($3,592)		($93,450)
Changes in assumptions	31,364	(7,687)	803,697	
Differences between the employer's contributions and the employer's proportionate share of contributions	701,011			(184,250)
Change in employer's proportion		(258,742)	133,832	
Net differences between projected and actual earnings on plan investments	1,360		196,767	
Total	$4,182,070	($270,021)	$1,498,764	($277,700)

NOTE 7 – PENSION PLANS (Continued)

The $3,437,779 and $364,468 reported as deferred outflows of resources related to contributions subsequent to the measurement date at December 31, 2018 and 2017 will be recognized as a reduction of the net pension liability in the years ended December 31, 2019 and 2018, respectively. Other amounts reported as net deferred inflows of resources related to pensions will be recognized as pension expense as follows as of December 31:

Year Ended December 31	2018	2017
2018		$228,833
2019	$168,075	466,627
2020	171,011	277,961
2021	137,658	(116,825)
2022	(2,474)	
	$474,270	$856,596

E. Actuarial Assumptions

The total pension liabilities in the June 30, 2017 and 2016 actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

	2018	2017
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.00%	7.65%
Inflation	2.625%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase (1)	3.2% - 12.2%	3.2% - 12.2%
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, 2017 and June 30, 2016 valuations were based on the results of a January 2014 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

NOTE 7 – PENSION PLANS (Continued)

F. Discount Rate

The discount rates used by CalPERS to measure the total pension liability were 7.00% and 7.65% in the June 30, 2017 and 2016 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.

On December 19, 2017, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumption for Public Agencies. These new assumptions are incorporated in the actuarial valuations and will impact the required contribution for FY 2019-20. In addition, the Board adopted a new asset portfolio as part of its Asset Liability Management. The new asset mix supports a 7.00 percent discount rate. The reduction of the inflation assumption will be implemented in two steps in conjunction with the decreases in the discount rate. For the June 30, 2017 valuation an inflation rate of 2.625 percent was used and a rate of 2.50 percent will be used in the following valuation.

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.

	2018			2017		
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%	47.0%	4.90%	5.38%
Global Fixed Income	28.0%	1.00%	2.62%	19.0%	0.80%	2.27%
Inflation Sensitive		0.77%	1.81%	6.0%	0.60%	1.39%
Private Equity	8.0%	6.30%	7.23%	12.0%	6.60%	6.63%
Real Estate	13.0%	3.75%	4.93%	11.0%	2.80%	5.21%
Infrastructure and Forestland				3.0%	3.90%	5.36%
Liquidity	1.0%	0.00%	-0.92%	2.0%	-0.40%	-0.90%
Total	100.0%			100.0%		

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

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:

	2018 Miscellaneous Plan	2017 Miscellaneous Plan
1% Decrease	6.15%	6.65%
Net Pension Liability	$8,519,489	$8,604,590
Current Discount Rate	7.15%	7.65%
Net Pension Liability	$5,665,437	$5,736,690
1% Increase	8.15%	8.65%
Net Pension Liability	$3,309,465	$3,361,444

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 employees and subject to change with each new MOU. Employees are not required to contribute to the OPEB Plan. It is the policy of the Project to fund postretirement healthcare premiums on a pay-as-you go basis. The Project has no separate trust or plan assets.

C. Employees Covered by Benefit Terms

Membership in the plan consisted of the following at the measurement date of December 31, 2018:

Active employees	24
Inactive employees or beneficiaries currently receiving benefit payments	2
Inactive employees entitled to but not yet receiving benefit payments	1
Total	27

D. Actuarial Methods and Assumptions

The Project's total OPEB liability was measured as of December 31, 2018 and the total OPEB liability was determined by an actuarial valuation dated December 31, 2017 that was rolled forward using standard update procedures to determine the total OPEB liability as of December 31, 2018, 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the December 31, 2018 and 2017 valuations, the Project elected to use the alternative measurement method as allowed under Governmental Accounting Standards Board Statement No. 75.

The actuarial assumptions in 2018 include health premium increases of 4.8% to 4.7% and a 100% probability of remaining employed until retirement. The following assumptions were used for both 2018 and 2017: 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, 2018 valuation 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, 2018, were as follows:

	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, 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 (3.1%) or 1-percentage-point higher (5.1%) than the current discount rate:

Total OPEB Liability		
Discount Rate -1% (3.1 %)	Discount Rate (4.1%)	Discount Rate +1% (5.1%)
$1,303,933	$1,189,216	$1,090,427

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		
1% Decrease (2.9% Medical/ 6.6% Pharmacy/ 2.5% Dental/ 2.0% Vision increasing/decreasing to 3.7% Medical/ 3.7% Pharmacy/ 2.0% Dental/ 2.0% Vision)	Healthcare Cost Trend Rates (3.9% Medical/ 7.6% Pharmacy/ 3.5% Dental/ 3.0% Vision increasing/decreasing to 4.7% Medical/ 4.7% Pharmacy/ 3.0% Dental/ 3.0% Vision)	1% Increase (4.9% Medical/ 8.6% Pharmacy/ 4.5% Dental/ 4.0% Vision increasing/decreasing to 5.7% Medical/ 5.7% Pharmacy/ 4.0% Dental/ 4.0% Vision)
$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, 2018, the Project recognized OPEB expense of $192,517. At December 31, 2018, the Project reported deferred outflows of resources and deferred inflows of resources related to OPEB of $0.

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).

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.

NOTE 9 – CONTINGENCIES AND COMMITMENTS (Continued)

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, 2018

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

	2018	2017	2016	2015	2014 (As Restated)
Proportionate of the net pension liability	0.124910%	0.145526%	0.142750%	0.142863%	0.119699%
Proportionate share of the net pension liability	$5,665,437	$5,736,690	$4,959,124	$3,919,442	$2,958,335
Covered payroll	$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	216.31%	229.08%	209.97%	202.41%	152.22%
Plan fiduciary net position	$13,122,440,092	$12,074,499,781	$10,923,476,287	$10,896,036,068	$10,639,461,174
Plan total pension liability	$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	77.69%	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, 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, 2018

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

Fiscal Year Ended December 31,	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually required contribution (actuarially determined)	$553,154	$475,900	$424,573	$460,162	$326,279
Contributions in relation to the actuarially determined contributions	(3,553,154)	(475,900)	(424,574)	(460,162)	(326,279)
Contribution deficiency (excess)	($3,000,000)	$0	$0	$0	$0
Covered payroll	$2,619,155	$2,504,259	$2,361,816	$1,936,368	$1,943,437
Contributions as a percentage of covered payroll	135.66%	19.00%	17.98%	23.76%	16.79%
Notes to Schedule					
Valuation date:	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, 2017 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	2.625%
Salary increases	2.875% to 11.375% 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, 2018

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

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

Measurement Date	**12/31/18**
Total OPEB Liability (1)	
Service Cost	$73,331
Interest	36,966
Differences between expected and actual experience	155,926
Changes of assumptions	(73,706)
Benefit payments	(9,039)
Net change in total OPEB liability	183,478
Total OPEB liability - beginning	1,005,738
Total OPEB liability - ending (a)	$1,189,216
Covered-employee payroll	$2,689,587
Total OPEB liability as a percentage of covered-employee payroll	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:

Changes in assumptions:

* Fiscal year 2018 was the first year of implementation.

TRI-DAM PROJECT

REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2018

SCHEDULE OF CONTRIBUTIONS

Single-Employer Defined Benefit OPEB Plan

Last 10 fiscal years*

Fiscal Year Ended June 30,	**2018**
Actuarial required contribution	$9,039
Contributions in relation to the actuarial required contributions	(9,039)
Contribution deficiency (excess)	$0
Covered-employee payroll	$2,689,587
Contributions as a percentage of covered-employee payroll	0.34%

Notes to Schedule:

* Fiscal year 2018 was the first year of implementation.

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OTHER SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS
MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2018 and 2017

	2018	2017
Donnells Facility:		
Operations		
Supervision wages and benefits	$24,133	$26,535
Hydraulic wages and benefits	11,475	4,584
Electric wages and benefits	251,775	315,367
Supplies and materials	36,294	9,541
Total Operations	323,677	356,027
Maintenance		
Supervision wages and benefits	74,696	237,121
Structures wages and benefits	18,559	18,395
Reservoirs and dams wages and benefits	76,505	21,072
Electrical plant wages and benefits	396,725	168,516
Other wages and benefits	74,938	119,984
High voltage wages and benefits	809	11,185
Communications and security wages and benefits	25,822	24,408
Supplies and materials	385,814	279,351
Road repairs	40,226	2,100,455
Total Maintenance	1,094,094	2,980,487
Total Donnells Facility	1,417,771	3,336,514
Beardsley Facility:		
Operations		
Supervision wages and benefits	30,022	14,584
Hydraulic wages and benefits	16,387	19,694
Electric wages and benefits	199,457	184,171
Other wages and benefits		96,943
Supplies and materials	10,831	7,094
Total Operations	256,697	322,486
Maintenance		
Supervision wages and benefits	37,577	105,178
Structures wages and benefits	36,731	66,080
Reservoirs and dams wages and benefits	23,165	39,104
Electrical plant wages and benefits	53,804	69,597
Other wages and benefits	25,351	73,764
High voltage wages and benefits		1,149
Communications and security wages and benefits	22,746	24,559
Supplies and materials	199,267	129,042
Total Maintenance	398,641	508,473

(Continued)

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS
MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2018 and 2017

	2018	2017
General and Administrative		
USFS resource management support	$97,852	$102,390
Total General & Administrative	97,852	102,390
Total Beardsley Facility	753,190	933,349
Tulloch Facility:		
Operations		
Supervision wages and benefits	121,205	117,028
Hydraulic wages and benefits	15,871	25,679
Electric wages and benefits	256,237	339,936
Supplies and materials	10,759	9,473
Total Operations	404,072	492,116
Maintenance		
Supervision wages and benefits	38,364	58,438
Structures wages and benefits	21,234	12,104
Reservoirs and dams wages and benefits	12,781	70,191
Electrical plant wages and benefits	154,824	127,817
Other wages and benefits	64,961	67,543
Communications and security wages and benefits	8,182	12,587
Supplies and materials	101,293	103,295
Road repairs		224,814
Total Maintenance	401,639	676,789
General and Administrative		
Supplies and Materials	78,620	6,798
Headwater benefit assessment	90,597	90,396
Other	57,589	4,296
Total General and Administrative	226,806	101,490
Total Tulloch Facility	1,032,517	1,270,395
Mt Elizabeth Facility		
Operations		
Supplies and materials	18,341	15,034
Maintenance		
Supervision wages and benefits	129	146
Structures wages and benefits	1,932	808
Other wages and benefits	2,925	3,114
Communications and security wages and benefits	6,250	4,139
Supplies and materials	4,665	139
Total Maintenance	15,901	8,346
Total Mt. Elizabeth Facility	34,242	23,380

(Continued)

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS
MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2018 and 2017

	2018	2017
Strawberry Peak Facility:		
Operations		
Supplies and materials	$10,659	$10,426
Maintenance		
Supervision wages and benefits	930	274
Structures wages and benefits	2,099	2,733
Other wages and benefits	103	4,302
Communications and security wages and benefits	4,982	5,398
Supplies and materials	19,950	17,484
Total Maintenance	28,064	30,191
Total Strawberry Peak	38,723	40,617
Operations Center		
Operations		
Supervision wages and benefits	23,801	11,696
Electric wages and benefits	193,747	124,589
Supplies and materials	4,493	3,535
Total Operations	222,041	139,820
Maintenance		
Structures wages and benefits	1,967	3,472
Other wages and benefits		280
Communications and security wages and benefits	43,476	60,353
Supplies and materials	3,304	2,261
Total Maintenance	48,747	66,366
Total Operations Center	270,788	206,186
Service Center		
Maintenance		
Structures wages and benefits	2,915	11,415
Other wages and benefits	63,668	95,217
Supplies and materials	255,937	240,270
Total Maintenance	322,520	346,902
Total Service Center	322,520	346,902
Division Point Facility:		
Operations:		
Supervision wages and benefits	23,803	11,989
Hydraulic wages and benefits	20,929	33,656
Electric wages and benefits	100,396	128,660
Supplies and materials	3,269	3,144
Total Operations	148,397	177,449

(Continued)

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES - OPERATIONS
MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2018 and 2017

	2018	2017
Maintenance		
Supervision wages and benefits	$1,407	
Structures wages and benefits	1,761	$728
Reservoirs and dams wages and benefits	10,994	3,170
Other wages and benefits	1,311	1,495
Communications and security wages and benefits	28,293	40,402
Supplies and materials	3,225	3,097
Total Maintenance	46,991	48,892
Total Division Point	195,388	226,341
Total Operations and Maintenance	3,740,481	6,179,804
Overall General and Administrative:		
Outside services	534,515	643,552
Administrative wages and benefits	902,142	903,576
Property insurance	361,194	370,139
FERC license fees	204,078	157,706
Safety fees and expense	191,978	168,662
Other wages and benefits-mobile equip. operation	90,552	77,467
Streamgaging	66,357	64,184
Miscellaneous	72,035	29,694
Utilities	41,851	34,356
Meals allowance and travel expense	26,124	13,430
Telephone, internet, data links	61,679	52,706
Office supplies and expense	30,996	30,405
Computer supplies	9,582	3,141
County taxes	26,708	11,666
Professional organizations	11,385	7,951
Pension expense	546,849	
Total Overall General and Administrative	3,178,025	2,568,635
Total General and Administrative	3,502,683	2,772,515
Depreciation and Amortization		
Depreciation on capital assets	1,805,987	1,673,615
FERC relicensing amortization	233,532	233,532
Total Depreciation and Amortization	2,039,519	1,907,147
TOTAL OPERATING EXPENSES	$9,282,683	$10,859,466
SUMMARY OF OPERATING EXPENSES BY TYPE		
Operations	1,383,884	$1,513,358
Maintenance	2,356,597	4,666,446
General and administrative	3,502,683	2,772,515
Depreciation and amortization	2,039,519	1,907,147
TOTAL OPERATING EXPENSES	$9,282,683	$10,859,466

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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, 2018 and 2017, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2019. 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 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 11, 2019 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 11, 2019