

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

PREPARED BY THE FINANCE DEPARTMENT

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Tri-Dam Power Authority
Strawberry, California

Report on Financial Statements

We have audited the accompanying financial statements of Tri-Dam Power Authority (Authority), California, as of and for the years ended December 31, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2019 and 2018, and changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California
April 10, 2020

TRI-DAM POWER AUTHORITY MANAGEMENT’S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of the Tri-Dam Power Authority’s (Authority) financial position as of December 31, 2019 and 2018, and the Authority’s financial performance for the years then ended. Condensed financial information for 2017 is also presented for comparison purposes. We encourage readers to consider the information presented here in conjunction with the more comprehensive financial statements, the notes to those financial statements, and the other additional information provided.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

- Power generation during 2019 was well above the Authority’s historical average. Generation at the Authority’s run-of-the-river Sand Bar hydroelectric facility totaled 104,000 megawatt hours (MWh), significantly higher than 2018 total generation of 71,000 MWh, and the Authority’s historical average generation of approximately 76,000 MWh.
- Operating revenues from power generation increased \$2.6 million to \$7.8 million, as compared to prior year total generation revenues of \$5.1 million.
- Operating expenses were greater than the prior year, totaling \$1.4 million, as compared to \$1.2 million in 2018.
- Total net position, the level by which total assets exceed total liabilities, increased by \$1.5 million, from \$30.7 million at December 31, 2018, to \$32.3 million at December 31, 2019. As with past years, the change in net position is impacted by the timing of distributions to the Oakdale Irrigation District and the South San Joaquin Irrigation District (Member Districts). The Authority distributed \$4.9 million to the Member Districts in January 2019, \$2.5 million less than the January 2018 distribution of \$7.4 million. In January 2020, the Authority distributed an additional \$6.4 million.
- In November 2019, the Authority’s Board of Commissioners appointed Jarom Zimmerman as the new general manager. Mr. Zimmerman previously served as manager of the Fryngpan-Arkansas hydroelectric project in Twin Lakes, Colorado.

FINANCIAL ANALYSIS OF THE AUTHORITY

This section is intended to serve as an introduction to the Authority’s Basic Financial Statements and Compliance Report. The financial data contained herein reflect the audited 2019 and 2018 financial results.

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

Basic Financial Statements

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

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

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

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

The Statements of Cash Flows break down the sources and uses of cash by activity, providing the detail of changes in the Authority's cash and cash equivalents during the year. Cash flow sources and uses are categorized as operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

Notes to the Basic Financial Statements

The *Notes to the Basic Financial Statements* are an equally important section of the financial statements as they provide a narrative on the trends, outlook and related accounting methodology behind the numbers.

Compliance Report

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

BALANCE SHEETS

The following table illustrates the Authority's condensed balance sheets for 2019, 2018 and 2017.

	Condensed Balance Sheets				
	2019	2018	Increase (Decrease)	2017	Increase (Decrease)
<u>Assets</u>					
Current Assets	\$ 8,704,540	\$ 6,615,317	\$ 2,089,223	\$ 9,571,468	\$ (2,956,151)
Restricted Assets	-	-	-	-	-
Capital Assets, Net	23,732,555	24,235,421	(502,866)	24,738,743	(503,322)
Total Assets & Deferred Outflows	<u>\$ 32,437,095</u>	<u>\$ 30,850,738</u>	<u>\$ 1,586,357</u>	<u>\$ 34,310,211</u>	<u>\$ (3,459,473)</u>
<u>Liabilities</u>					
Current Liabilities	\$ 172,602	\$ 106,143	\$ 66,459	\$ 104,133	\$ 2,010
Noncurrent Liabilities	-	-	-	-	-
Total Liabilities	<u>172,602</u>	<u>106,143</u>	<u>66,459</u>	<u>104,133</u>	<u>2,010</u>
<u>Net Position</u>					
Net Investment in Capital Assets	23,732,555	24,235,421	(502,866)	24,738,743	(503,322)
Unrestricted	8,531,938	6,509,174	2,022,764	9,467,335	(2,958,161)
Total Net Position	<u>32,264,493</u>	<u>30,744,595</u>	<u>1,519,898</u>	<u>34,206,078</u>	<u>(3,461,483)</u>
Total Liabilities and Net Position	<u>\$ 32,437,095</u>	<u>\$ 30,850,738</u>	<u>\$ 1,586,357</u>	<u>\$ 34,310,211</u>	<u>\$ (3,459,473)</u>

Assets

2019 compared to 2018

Current assets ended the year totaling \$8.7 million, an increase of \$2.1 million from yearend 2018. The increase was primarily due to a combination of higher power generation cash flow resulting in greater yearend cash balances, in addition to a greater power generation receivable due to greater than average generation during December 2019. Cash distributions to the Member Districts during 2019 were also less than the prior year, which also contributed to the increase in cash balances.

Noncurrent capital assets declined \$503,000 during 2019, almost entirely due to normal depreciation along with a small \$3,000 disposal of a construction-in-progress project. The Authority did not purchase any capital assets during the year.

2018 compared to 2017

Current assets declined by nearly \$3.0 million during 2018 because of lower power generation cash flow and substantially greater distributions to the Member Districts. The amount and timing of distributions to the Member Districts are determined by the Authority's Board of Commissioners. Inasmuch as the Authority enjoyed strong cash flow during 2017, the Board of Commissioners elected to make a substantial cash distribution in January 2018. When combined with lower cash flow during 2018, the January distribution caused yearend cash balances to be lower than at December 31, 2017. The Authority's power generation receivable was also lower at yearend 2018 versus 2017, as December 2018 generation was well below December 2017 generation.

Noncurrent capital assets declined \$503,000 during 2018, entirely due to normal depreciation. The Authority did not purchase any capital assets during the year.

Liabilities

2019 compared to 2018

Liabilities remained minimal for the Authority during 2019, totaling only \$173,000, or \$66,000 greater than yearend 2018. As with the prior year, liabilities at the end of 2019 primarily consisted of accrued payroll and other labor costs for employees on loan from Tri-Dam Project, a related but separate entity that operates in coordination with the Authority. The two entities maintain a cost sharing agreement whereby the Project provides all labor and various other services to the Authority, and the Authority periodically reimburses the Project.

2018 compared to 2017

Total liabilities as of December 31, 2018 equaled \$106,000, an increase of \$2,000 from 2017. Total liabilities, all current, primarily represent accrued payroll and other labor costs due to Tri-Dam Project.

Net Position

2019 compared to 2018

Net position at the end of 2019 totaled \$32.3 million, an increase of \$1.5 million from prior year net position of \$30.7 million. Similar to the prior year, net position invested in capital assets decreased \$503,000, and totaled \$23.7 million, while unrestricted net position rose \$2.0 million. The net investment in capital assets represents the Authority's investment in hydroelectric production facilities, a water conveyance tunnel, roads, bridges, and other equipment, the cost of which is recognized over the useful lives of these assets through depreciation expense. Net position invested in capital assets is shown on the balance sheets net of accumulated depreciation.

The Authority did not have any restricted net position as of the end of 2019. The Authority's Board of Commissioners has imposed minimum reserve balances; however, these reserves can be changed at the Board's discretion. These minimums are in place to ensure adequate reserve balances exist in the event of a system failure or to fund future projects.

2018 compared to 2017

Net position at the end of 2018 totaled \$30.7 million, a decrease of \$3.5 million from prior year net position of \$34.2 million. Net position invested in capital assets decreased \$503,000 to \$24.2 million, while unrestricted net position decreased \$3.0 million to \$6.5 million.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following table illustrates the Authority's condensed statements of revenues, expenses, and changes in net position for 2019, 2018 and 2017.

	Condensed Statements of Revenues, Expenses, and Changes in Net Position				
	2019	2018	Change	2017	Change
Operating Revenues	\$ 7,775,029	\$ 5,133,607	\$ 2,641,422	\$ 8,387,333	\$(3,253,726)
Operating Expenses	1,427,346	1,247,862	179,484	1,246,807	1,055
Net Operating Revenue (Expense)	6,347,683	3,885,745	2,461,938	7,140,526	(3,254,781)
Nonoperating Revenues	43,610	35,772	7,838	26,369	9,403
Nonoperating Expenses	3,395	-	3,395	-	-
Net Nonoperating Revenue (Expense)	40,215	35,772	4,443	26,369	9,403
Change in Net Position	6,387,898	3,921,517	2,466,381	7,166,895	(3,245,378)
Net Position, Beginning of Year	30,744,595	34,206,078	(3,461,483)	28,423,183	5,782,895
Less: Distributions to Member Districts	(4,868,000)	(7,383,000)	2,515,000	(1,384,000)	(5,999,000)
Net Position, End of Year	\$32,264,493	\$30,744,595	\$ 1,519,898	\$34,206,078	\$(3,461,483)

Revenues

2019 compared to 2018

The Authority's only operating revenues are from the sale of electricity to the City of Santa Clara, California, and a small amount of power sold to Pacific Gas & Electric Company for a facility near the Authority's Sand Bar power plant. Power generation revenue totaled \$7.8 million during 2019, an increase of \$2.6 million from the prior year. The increase was attributable to a more favorable water year, along with a higher price per MWh. The Authority's contract with the City of Santa Clara includes a fixed price structure with scheduled increases each year until 2021 when the price remains fixed for the remaining three years of the contract.

Nonoperating revenues consisted of interest income from investments, which totaled \$44,000, an increase of \$8,000 from the prior year. The improvement was primarily due to higher market interest rates.

2018 compared to 2017

Power generation revenue totaled \$5.1 million during 2018, a decline of \$3.3 million from the prior year. The decline was attributable to lower precipitation and snowfall, partially offset by a higher price per MWh.

Nonoperating revenues consisted of interest income from investments, which totaled \$36,000, an increase of \$9,000 from the prior year. The improvement was due to higher market interest rates.

Expenses

2019 compared to 2018

Operating expenses totaled \$1.4 million during 2019, a \$179,000, or 14% increase over 2018. The increase in operating expenses was primarily attributable to an extended annual maintenance outage during 2019 as compared to 2018, which increased labor costs considerably. Labor costs also increased due to PG&E's Public Safety Power Shutoff program, which necessitated increased overtime due to additional staffing of the Sand Bar plant by Tri-Dam operations and maintenance personnel.

2018 compared to 2017

Operating expenses were little changed from the prior year, totaling approximately \$1.2 million. Lower operations department expenses were offset by higher maintenance and administrative expenses. As was the case during 2017, there were no nonoperating or significant nonrecurring expenses during 2018.

CAPITAL ASSETS

The following table illustrates the Authority's capital assets for 2019 and 2018.

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
Construction in progress	\$ 10,847	\$ 14,243	\$ (3,396)
Hydraulic production facilities	19,137,266	19,137,266	-
Conveyance tunnel	22,123,528	22,123,528	-
Roads and bridgers	1,510,573	1,510,573	-
Other equipment	2,545,156	2,545,156	-
Total Capital Assets	<u>45,327,370</u>	<u>45,330,766</u>	<u>(3,396)</u>
Less: accumulated depreciation	<u>(21,594,815)</u>	<u>(21,095,345)</u>	<u>(499,470)</u>
Net Capital Assets	<u>\$ 23,732,555</u>	<u>\$ 24,235,421</u>	<u>\$ (502,866)</u>

During 2019, the Authority's capital assets net of accumulated depreciation decreased \$503,000 due to normal depreciation and the abandonment of a small capital project. Note C to the financial statements contains additional information regarding the Authority's capital assets.

EXPECTATIONS FOR 2020

The 2019-2020 water year started relatively well, with December 2019 precipitation much greater than average. However, January and February 2020 were both well below average, with February recorded precipitation virtually zero. As a result of the corresponding reduced river flows, the Sand Bar plant has been offline since early February through the month of March. Although March snowfall and precipitation was better than average, it is doubtful the Sand Bar plant will reach 2020 budgeted generation of approximately 76,000 MWh.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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

	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 2)	\$7,930,738	\$6,389,986
Prepaid expenses	56,470	41,311
Accrued interest receivable	6,426	6,293
Accounts receivable, power generation	710,906	177,727
Total Current Assets	8,704,540	6,615,317
Capital Assets (Note 3):		
Non-depreciable	10,847	14,243
Depreciated, net	23,721,708	24,221,178
Total Noncurrent Assets	23,732,555	24,235,421
Total Assets	\$32,437,095	\$30,850,738
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable	\$1,764	\$3,036
Accounts payable, Tri-Dam Project	170,838	103,107
Total Current Liabilities	172,602	106,143
Total Liabilities	172,602	106,143
NET POSITION (Note 1J)		
Net investment in capital assets	23,732,555	24,235,421
Unrestricted	8,531,938	6,509,174
Total Net Position	32,264,493	30,744,595
TOTAL LIABILITIES AND NET POSITION	\$32,437,095	\$30,850,738

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

TRI-DAM POWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Power generation revenues	\$7,775,029	\$5,133,607
Total Operating Revenues	7,775,029	5,133,607
OPERATING EXPENSES		
Operations	333,256	269,627
Maintenance	278,472	185,442
General and administrative	316,148	289,471
Depreciation (Note 3)	499,470	503,322
Total Operating Expenses	1,427,346	1,247,862
NET INCOME FROM OPERATIONS	6,347,683	3,885,745
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	43,611	35,772
Loss on sale or disposal of capital assets	(3,396)	
Total Nonoperating Revenues (Expenses)	40,215	35,772
CHANGE IN NET POSITION	6,387,898	3,921,517
NET POSITION, BEGINNING OF YEAR	30,744,595	34,206,078
Less: distributions to Member Districts (Note 5)	(4,868,000)	(7,383,000)
NET POSITION, END OF YEAR	\$32,264,493	\$30,744,595

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

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	\$7,240,258	\$5,577,408
Cash payments to suppliers for goods and services	(874,984)	(740,841)
Cash Flows from Operating Activities	6,365,274	4,836,567
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Member Districts	(4,868,000)	(7,383,000)
Net Cash Used for Noncapital Financing Activities	(4,868,000)	(7,383,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	43,478	32,535
Net Cash Provided by Investing Activities	43,478	32,535
NET CASH FLOWS	1,540,752	(2,513,898)
Cash and cash equivalents at beginning of year	6,389,986	8,903,884
Cash and cash equivalents at end of year	\$7,930,738	\$6,389,986
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Unrestricted cash and cash equivalents	\$7,930,738	\$6,389,986
Cash and Cash Equivalents	\$7,930,738	\$6,389,986
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from operations	\$6,347,683	\$3,885,745
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	499,470	503,322
Changes in operating assets and liabilities:		
(Increase) decrease in prepaid expenses	(15,159)	1,689
(Increase) decrease in accounts receivable, power generation	(533,179)	443,801
(Decrease) increase in accounts payable	(1,272)	527
Increase in accounts payable to Tri-Dam Project	67,731	1,483
Cash Flows from Operating Activities	\$6,365,274	\$4,836,567

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

**TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. *Organization and Purpose*

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

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

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

TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

C. Basis of Accounting

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

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

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

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

D. Budgetary Principals

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

E. Use of Estimates

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

TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

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

G. Fair Value Hierarchy

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

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

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

H. Accounts Receivable

Trade accounts receivable are carried at net realizable values. The Authority records power generation for energy deliveries to the City of Santa Clara, California. The Authority has determined that an allowance for doubtful accounts is not necessary.

**TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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

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

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

J. Net Position

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

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

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The purpose of the restriction is reported on the face of the balance sheet. The Authority had no restricted net position at December 31, 2019 or 2018.

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

**TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Power Generation Revenue

The Authority entered into a power purchase and sale agreement with the City of Santa Clara, California through its municipal electric utility, Silicon Valley Power, which began on January 1, 2017. Under the agreement, the Authority agrees to sell the net electrical output and installed capacity of its power generating facility (the Southern Powerhouse) to the City through December 31, 2023, including electrical energy, capacity attributes and any renewable energy credits and environmental attributes of the power generating facility. Under the agreement, the Authority will receive a fixed contract price per megawatt hour (MWh) as summarized in the agreement. The contract price includes scheduled increases ranging from 2.6% to 4.2% each year from 2019 through 2021 when the price is fixed through the remaining term of the agreement.

L. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The commercial insurance is subject to a deductible. No significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended December 31, 2019 and 2018. There have been no claims for the past three years. There were no significant reductions in insurance coverage from the prior year.

NOTE 2 – CASH AND INVESTMENTS

A. Classification

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

	2019	2018
Deposits with financial institutions	\$6,863,370	\$5,348,751
Local Agency Investment Fund (LAIF)	1,067,368	1,041,235
Total unrestricted cash and cash equivalents	7,930,738	6,389,986
Total Cash and Investments	\$7,930,738	\$6,389,986

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

	2019	2018
Cash and investments under GASB 40		
Deposits with financial institutions	\$6,863,370	\$5,348,751
Total cash and deposits	6,863,370	5,348,751
Local Agency Investment Fund (LAIF)	1,067,368	1,041,235
Total investments	1,067,368	1,041,235
Total Cash and Investments	\$7,930,738	\$6,389,986

**TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. Investment Policy

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

The Authority's permissible investments included the following instruments:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in one Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
California Local Agency Debt	5 years	None	None
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposits	5 years	30%	None
Medium-Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

The Authority complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements as of December 31, 2019.

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment policy does not contain any provisions limiting interest rate risk that are more restrictive than what is specified in the California Government Code.

The Authority's only investment as of December 31, 2019 was in the State of California's Local Agency Investment Fund. The average maturity of the fund was 226 days as of December 31, 2019.

D. Fair Value Hierarchy

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

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

TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 2 – CASH AND INVESTMENTS (Continued)

E. Credit Risk

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

F. Concentration of Credit Risk

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

G. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At December 31, 2019 and 2018, respectively, the carrying amounts of the Authority's deposits were \$6,863,370 and \$5,348,751, respectively, and the balances in financial institutions were \$6,863,450 and \$5,351,224 respectively. Of the balance in financial institutions at December 31, 2019 and 2018, \$250,000 was covered by federal depository insurance each year and the remaining amounts were secured by a pledge of securities by the financial institution, but not in the name of the Authority.

H. Investment in LAIF

LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total amount invested on December 31, 2019 by all public agencies in LAIF is \$89,306,431,452 managed by the State Treasurer. Of that amount, 99.32% is invested in non-derivative financial products and 0.68% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on a fair value basis.

TRI-DAM POWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 3 – CAPITAL ASSETS

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

	Balance at January 1, 2019	Additions	Disposals	Balance at December 31, 2019
Capital assets not being depreciated:				
Construction in progress	\$14,243		(\$3,396)	\$10,847
	<u>14,243</u>		<u>(3,396)</u>	<u>10,847</u>
Capital assets being depreciated:				
Hydroelectric production facilities	19,137,266			19,137,266
Conveyance tunnel	22,123,528			22,123,528
Roads and bridges	1,510,573			1,510,573
Other equipment	2,545,156			2,545,156
Total capital assets being depreciated, net	<u>45,316,523</u>			<u>45,316,523</u>
Accumulated depreciation:				
Hydroelectric production facilities	(10,992,829)	(\$244,496)		(11,237,325)
Conveyance tunnel	(7,187,607)	(221,243)		(7,408,850)
Roads and bridges	(497,996)	(14,970)		(512,966)
Other equipment	(2,416,913)	(18,761)		(2,435,674)
Total accumulated depreciation	<u>(21,095,345)</u>	<u>(499,470)</u>		<u>(21,594,815)</u>
Capital assets depreciated, net	<u>24,221,178</u>	<u>(499,470)</u>		<u>23,721,708</u>
Capital assets, net	<u>\$24,235,421</u>	<u>(\$499,470)</u>	<u>(\$3,396)</u>	<u>\$23,732,555</u>

	Balance at January 1, 2018	Additions	Balance at December 31, 2018
Capital assets not being depreciated:			
Construction in progress	\$14,243		\$14,243
	<u>14,243</u>		<u>14,243</u>
Capital assets being depreciated:			
Hydroelectric production facilities	19,137,266		19,137,266
Conveyance tunnel	22,123,528		22,123,528
Roads and bridges	1,510,573		1,510,573
Other equipment	2,545,156		2,545,156
Total capital assets being depreciated, net	<u>45,316,523</u>		<u>45,316,523</u>
Accumulated depreciation:			
Hydroelectric production facilities	(10,748,204)	(\$244,625)	(10,992,829)
Conveyance tunnel	(6,966,371)	(221,236)	(7,187,607)
Roads and bridges	(483,025)	(14,971)	(497,996)
Other equipment	(2,394,423)	(22,490)	(2,416,913)
Total accumulated depreciation	<u>(20,592,023)</u>	<u>(503,322)</u>	<u>(21,095,345)</u>
Capital assets depreciated, net	<u>24,724,500</u>	<u>(503,322)</u>	<u>24,221,178</u>
Capital assets, net	<u>\$24,738,743</u>	<u>(\$503,322)</u>	<u>\$24,235,421</u>

**TRI-DAM POWER AUTHORITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 4 – NET POSITION

A. Commitments

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

	2019	2018
Maintenance reserve:		
For replacement and maintenance expenditures on water storage and delivery systems and hydroelectric generation facilities.	\$23,000	\$21,972
Operating reserve:	1,000,000	1,000,000
Total committed net position	\$1,023,000	\$1,021,972

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

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

NOTE 5 – DISTRIBUTIONS TO MEMBER DISTRICTS

The Authority made cash distributions to Member Districts from surplus funds in the total amount of \$4,868,000 (\$2,434,000 each) for the year ended December 31, 2019.

NOTE 6 – CONTINGENCIES

A. Claims

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

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

To the Commissioners
Tri-Dam Power Authority
Strawberry, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Tri-Dam Power Authority (Authority), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, and have issued our report thereon dated April 10, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated April 10, 2020 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze + Associates

Pleasant Hill, California
April 10, 2020