

TRI-DAM POWER AUTHORITY
AUDITED FINANCIAL STATEMENTS
December 31, 2014

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December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Tri-Dam Power Authority
Strawberry, California

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-Dam Power Authority (the Authority), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2014 and 2013 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

To the Commissioners
Tri-Dam Power Authority

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress of the other postemployment benefits plan, as listed in the accompanying 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2015 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 and 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.

Richardson & Company, LLP

April 8, 2015

MANAGEMENT'S DISCUSSION
AND ANALYSIS

TRI-DAM POWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014

This discussion and analysis provides an overview of the Tri-Dam Power Authority's (Authority) financial position as of December 31, 2014 and 2013, and the Authority's financial performance for the years then ended. Condensed financial information for 2012 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

- In April of 2014, Tri-Dam's Board of Commissioners appointed Ron Berry as the new general manager. Mr. Berry has over 26 years of experience with Tri-Dam Power Authority and previously served as Tri-Dam's operations supervisor.
- The impact of the ongoing California drought continued to negatively impact the Authority, leading to significantly curtailed energy production at its Sand Bar hydroelectric facility on the middle fork of the Stanislaus River.
- Total net position, the level by which total assets exceed total liabilities, increased by \$2.2 million, from \$20.3 million at December 31, 2013 to \$22.5 million at December 31, 2014.
- Operating revenues declined by \$1.2 million during 2014, totaling only \$3.6 million during the year, compared to \$4.8 million during 2013. The decline was entirely attributable to lower energy generation as a result of the ongoing drought.
- Operating expenses declined during 2014, totaling \$1.1 million versus \$1.3 million during 2013. The decline was primarily due to a reduction in maintenance costs and lower labor expense.
- Nonoperating expenses also declined from \$367,000 during 2013 to \$270,000 during 2014. The decline was due to lower interest expense, as a portion of the Authority's outstanding debt was retired.

FINANCIAL ANALYSIS OF THE AUTHORITY

This section is intended to serve as an introduction to the Authority's 1) Basic Financial Statements, 2) Required Supplementary Information, and 3) Compliance Report. The financial data contained herein reflects the audited 2014 and 2013 financial results.

Basic Financial Statements

This section includes the Balance Sheet; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the Notes to the Basic Financial Statements.

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

The Statement 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 Statement of Cash Flows breaks 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 by operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The notes to the 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.

Required Supplementary Information

This schedule provides additional detail regarding the Authority's funding progress of other postemployment benefits. Also see Note H to the financial statements.

Compliance Report

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

BALANCE SHEET

The following table illustrates the Authority's condensed balance sheet for 2014, 2013 and 2012.

	Condensed Balance Sheets				
	2014	2013	Increase (Decrease)	2012	Increase (Decrease)
<u>Assets</u>					
Current Assets	\$ 2,250,283	\$ 1,696,807	\$ 553,476	\$ 2,382,796	\$ (685,989)
Restricted Assets	1,640,029	1,640,030	(1)	1,641,496	(1,466)
Capital Assets, Net	26,211,199	26,729,365	(518,166)	26,846,687	(117,322)
Total Assets & Deferred Outflows	<u>\$ 30,101,511</u>	<u>\$ 30,066,202</u>	<u>\$ 35,309</u>	<u>\$ 30,870,979</u>	<u>\$ (804,777)</u>
<u>Liabilities</u>					
Current Liabilities	\$ 3,143,527	\$ 2,661,374	\$ 482,153	\$ 2,580,173	\$ 81,201
Noncurrent Liabilities	4,482,715	7,139,658	(2,656,943)	9,694,223	(2,554,565)
Total Liabilities	<u>7,626,242</u>	<u>9,801,032</u>	<u>(2,174,790)</u>	<u>12,274,396</u>	<u>(2,473,364)</u>
<u>Net Position</u>					
Net Investment in Capital Assets	19,160,466	17,118,052	2,042,414	14,769,794	2,348,258
Restricted for Debt Service	1,640,029	1,640,030	(1)	1,641,496	(1,466)
Unrestricted	1,674,774	1,507,088	167,686	2,185,293	(678,205)
Total Net Position	<u>22,475,269</u>	<u>20,265,170</u>	<u>2,210,099</u>	<u>18,596,583</u>	<u>1,668,587</u>
Total Liabilities and Net Position	<u>\$ 30,101,511</u>	<u>\$ 30,066,202</u>	<u>\$ 35,309</u>	<u>\$ 30,870,979</u>	<u>\$ (804,777)</u>

Assets

2014 compared to 2013

Current assets increased by \$553,000 during 2014, primarily due to an increase of \$327,000 in cash and equivalents and a \$230,000 increase in the power generation receivable due from Pacific Gas and Electric Company (PG&E). Although power generation and net earnings were lower during 2014 versus the prior year, the Authority's Board of Commissioners voted to forego any cash distributions to the Member Districts in order to preserve cash in the event of another below average generation year, which led to the higher cash balances. The increase in the power generation receivable at December 31, 2014 was essentially a timing difference resulting from December water releases from Beardsley Reservoir, which is operated by the Authority's separate by related entity, Tri-Dam Project.

The Authority's noncurrent restricted assets totaled \$1.6 million as of year-end and represented money market funds held by the trustee on behalf of the holders of the Authority's outstanding bonds. Because these assets are restricted, and will likely not be used until the final bond payment in 2016, they are not considered current assets.

Capital assets, net of accumulated depreciation, declined by \$518,000 and was entirely attributable to normal depreciation. The Authority had no capital asset additions during 2014.

2013 compared to 2012

Current assets declined by \$686,000 during 2013, primarily due to a lower level of cash and equivalents, and a lower power generation receivable. The lower level of both of these current assets was primarily due to pay down of outstanding debt, capital asset expenditures, and reduced power generation levels during the second half of 2013, as the negative effects of the ongoing drought began to be experienced. Current assets included the Authority's deposits with financial institutions which totaled \$435,000, and investments in money market mutual funds which

totaled \$1.0 million. Current assets also included \$191,000 due to the Authority for power sales to PG&E in the normal course of business.

The Authority's restricted assets totaled \$1.6 million as of year-end and represented money market mutual funds held by the trustee on behalf of the holders of the Authority's outstanding bonds.

Capital assets, net of depreciation, declined \$117,000 during the year. Capital asset additions totaled \$380,000 in 2013, while depreciation expense totaled \$497,000.

Liabilities

2014 compared to 2013

The Authority ended 2014 with total liabilities of \$7.6 million, a decline of \$2.2 million from the prior year, due to debt payments made during the year.

Current liabilities included the portion of the Authority's 2010 Revenue Refunding bonds due within one year which totaled \$2.6 million, amounts due Tri-Dam Project for accrued labor and equipment rental of \$472,000, accrued interest payable totaling \$46,000, and the estimated current portion of accrued compensated absences (vacation and sick leave) of \$20,000. The Authority withheld labor and equipment rental reimbursements to Tri-Dam Project to conserve cash due to the reduced power generation revenues.

Noncurrent liabilities included the outstanding portion of the Authority's bonds due in more than one year which totaled \$4.5 million, and the estimated noncurrent portion of compensated absences and other postemployment benefits.

2013 compared to 2012

The Authority ended 2013 with total liabilities of \$9.8 million, a decline of \$2.5 million from the prior year, due to debt payments made during the year.

Current liabilities included the outstanding portion of the Authority's bonds due within one year which totaled \$2.5 million, interest payable on the bonds of \$63,000, various amounts due to Tri-Dam Project in the normal course of business totaling \$81,000, and the estimated current portion of compensated absences of \$20,000.

Noncurrent liabilities include the outstanding portion of the Authority's bonds due in more than one year which totaled \$7.1 million, and the estimated noncurrent portion of compensated absences and other postemployment benefits.

Net Position

2014 compared to 2013

Net position at the end of 2014 totaled \$22.5 million, an increase of \$2.2 million from the prior year. Net position at the end of 2014 was broken down between the net investment in capital assets of \$19.2 million, assets restricted for debt service of \$1.6 million, and unrestricted assets of \$1.7 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. Capital assets provide the Authority with the ability to continue operations and do not represent liquid assets that can easily be used to pay future obligations.

Restricted net position represents the debt service reserve fund required under the 2010 Revenue Refunding bond agreement. Restricted net assets totaled \$1.6 million at the end of 2014, unchanged from 2013.

Unrestricted net position increased \$168,000 versus 2013, representing the difference between change in net position (net earnings) of \$2.2 million and the retirement of \$2.6 million in outstanding debt, net of depreciation of \$518,000.

The Authority's Board of Commissioners has also imposed minimum reserve balances which can be changed at the Board's discretion. These minimums are in place to ensure adequate reserve balances exist in the event of a system failure or to fund future projects.

2013 compared to 2012

The Authority's net position at the end of 2013 was broken down between the net investment in capital assets of \$17.1 million, assets restricted for debt service of \$1.6 million, and unrestricted assets of \$1.5 million. Total assets exceeded liabilities by \$20.3 million at December 31, 2013, an increase of \$1.7 million from year-end 2012.

Restricted net position represented the debt service reserve fund required under the 2010 Revenue Refunding bond agreement. Restricted net assets totaled \$1.6 million at the end of 2013, essentially unchanged from 2012.

Unrestricted net position decreased \$678,000 versus 2012 due to distributions to Member Districts of \$1.5 million, and the retirement of \$2.4 million in debt which increased the net position invested in capital assets by a corresponding amount.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Expenses and Changes in Net Position				
	2014	2013	Increase (Decrease)	2012	Increase (Decrease)
Operating Revenues	\$ 3,607,595	\$ 4,806,491	\$ (1,198,896)	\$ 4,411,703	\$ 394,788
Operating Expenses	1,130,758	1,277,053	(146,295)	1,212,895	64,158
Net Operating Revenue (Expense)	2,476,837	3,529,438	(1,052,601)	3,198,808	330,630
Nonoperating Revenues	3,149	6,569	(3,420)	4,796	1,773
Nonoperating Expenses	(269,887)	(367,420)	97,533	(437,501)	70,081
Net Nonoperating Revenue (Expense)	(266,738)	(360,851)	(100,953)	(432,705)	(68,308)
Change in Net Position	2,210,099	3,168,587	(958,488)	2,766,103	402,484
Net Position, Beginning of Year	20,265,170	18,596,583	1,668,587	17,830,480	766,103
Less: Distributions to Member Districts	-	(1,500,000)	1,500,000	(2,000,000)	500,000
Net Position, End of Year	\$ 22,475,269	\$ 20,265,170	\$ 2,210,099	\$ 18,596,583	\$ 1,668,587

Revenues

2014 compared to 2013

Operating revenues declined considerably during 2014, as the impact of the drought curtailed power generation. For 2014, power generation revenue totaled \$3.6 million, a decline of \$1.2 million from 2013 power generation revenue of \$4.8 million. For the fourth year in a row, rain and snowfall totals were well-below average, resulting in below average generation of approximately 21,000 MWh, as compared to long-term average generation of approximately 77,000 MWh, and 2013 total generation of approximately 54,000 MWh. Partially offsetting the reduction in generation was an improvement in power prices.

The Authority's primary revenue source remains the sale of wholesale electricity generated by its Sand Bar hydroelectric plant. The Authority sells 100 percent of its power directly to PG&E under a standard offer contract for qualifying facilities that runs through the end of 2016. The revenue includes payment for capacity and energy calculated by the short run avoided cost tariff.

Non-operating revenues consisted of investment earnings, and remained minimal during 2014, totaling only \$3,000.

2013 compared to 2012

Total operating revenues increased \$395,000 from \$4.4 million in 2012 to \$4.8 million in 2013. Total generation for 2013 was slightly lower than 2012; however, wholesale power prices improved considerably during 2013, resulting in improved revenue, particularly during the first half of the year. Power generation totaled approximately 54,000 MWh for 2013, well below the Authority's historical average.

Nonoperating revenues consisted of investment earnings, and remained minimal during 2013, totaling \$7,000.

Expenses

2014 compared to 2013

Operating expenses declined \$146,000, or 11.5 percent, during 2014, to \$1.1 million. The decline was primarily attributable to lower maintenance costs as the Sand Bar plant was idled for over three months due to a lack of sufficient river flows. In addition, total labor costs declined by \$47,000 due to the relative lack of generation activity. Although the Authority does not have its own employees, labor costs are allocated for employees on loan from Tri-Dam Project. The Authority periodically reimburses Tri-Dam Project for all allocated labor costs in accordance with a cost sharing agreement between the two entities.

Nonoperating expenses totaled \$270,000, and consisted of the interest expense incurred on the 2010 Revenue Refunding bonds still outstanding. During 2014, the Authority retired \$2.6 million of refunding bonds, resulting in future interest expense savings of \$100,000 a year. The remaining 2010 Revenue Refunding bonds are scheduled to mature and will be retired over the course the next two years, with the final maturity in November 2016.

2013 compared to 2012

Operating expenses increased \$64,000 during 2013, to \$1.3 million. The increase was primarily due to increased maintenance expense, which increased by \$46,000 from 2012. Maintenance costs associated with a valve repair at the Authority's Sand Bar powerhouse and a vegetation clearing project under transmission lines were the cause of the increase. Expenses related to daily operations also increased during 2013, primarily due to increased labor costs. However, total Authority labor costs declined by \$15,000 from the prior year due to lower maintenance and administrative labor costs.

Nonoperating expenses totaled \$367,000, and consisted of the interest expense incurred on the 2010 Revenue Refunding bonds still outstanding. During 2013, the Authority retired \$2.5 million of refunding bonds.

CAPITAL ASSETS

	<u>2014</u>	<u>2013</u>	Increase (Decrease)
Hydraulic production facilities	\$ 19,097,454	\$ 19,097,454	-
Conveyance tunnel	22,123,528	22,123,528	-
Roads and bridgers	1,510,573	1,510,573	-
Other equipment	2,555,398	2,555,398	-
Total Capital Assets	<u>45,286,953</u>	<u>45,286,953</u>	-
Less: accumulated depreciation	<u>(19,075,754)</u>	<u>(18,557,588)</u>	\$ (518,166)
Net Capital Assets	<u>\$ 26,211,199</u>	<u>\$ 26,729,365</u>	\$ (518,166)

At the close of 2014, the Authority's investment in capital assets (net of accumulated depreciation) decreased \$518,000, which was entirely due to normal depreciation. The Authority had no capital asset additions or disposals during the year. Note C to the financial statements contains additional information regarding the Authority's capital assets.

EXPECTATIONS FOR 2015

As was the case last year, the 2014/2015 water year will undoubtedly be one of the worst on record, with average snow pack and precipitation near historic lows. Moreover, the Authority's power generation capability is again subject to water conservation efforts by the Member Districts and the corresponding releases from Beardsley Reservoir upstream from the Authority's Sand Bar plant. Although January 2015 power generation was above average, the strong month was essentially a water scheduling benefit related to the Member Districts' river and inflow schedule into New Melones Reservoir. Since the end of February the Sand Bar plant has been shut down due to a lack sufficient river flows, and 2015 generation levels are almost certain to again be well below the Authority's historical average. Further exacerbating the situation, wholesale power prices are notably lower than during the same period last year.

Substantially mitigating the loss of energy generation is the receipt of capacity payments from PG&E. The Authority's agreement with PG&E requires that PG&E continue to pay capacity payments to the Authority, provided the only reason for a shutdown is a lack of sufficient river flows. It should also be noted that capacity payments increase considerably for the months of May through October. Accordingly, management anticipates no

difficulty in servicing its outstanding debt during 2015. Expenses for 2015 are again budgeted under a worst case scenario, with no budgeted capital expenditures.

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 Rick Dodge, Finance and Administrative Manager, P.O. Box 1158, Pincrest, California 95364-0158 or rdodge@tridamproject.com.

BASIC FINANCIAL STATEMENTS

TRI-DAM POWER AUTHORITY

BALANCE SHEETS

December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,783,400	\$ 1,456,257
Prepaid expenses	45,360	49,389
Accrued interest receivable	18	22
Accounts receivable, power generation	421,505	191,139
Total Current Assets	<u>2,250,283</u>	<u>1,696,807</u>
Noncurrent Assets		
Restricted Assets		
Cash and cash equivalents with fiscal agent	1,640,029	1,640,030
Capital Assets		
Depreciated, net	26,211,199	26,729,365
Total Noncurrent Assets	<u>27,851,228</u>	<u>28,369,395</u>
TOTAL ASSETS	<u>\$ 30,101,511</u>	<u>\$ 30,066,202</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 669	\$ 1,995
Accrued interest payable	46,167	62,800
Accounts payable, Tri-Dam Project	472,341	81,342
Unearned revenue	9,265	
Long-term debt, current portion	2,595,000	2,495,000
Compensated absences, current portion	20,085	20,237
Total Current Liabilities	<u>3,143,527</u>	<u>2,661,374</u>
Noncurrent Liabilities		
Long-term debt, noncurrent portion	4,455,733	7,116,313
Compensated absences, noncurrent portion	16,104	15,581
Other postemployment benefits	10,878	7,764
Total Noncurrent Liabilities	<u>4,482,715</u>	<u>7,139,658</u>
TOTAL LIABILITIES	<u>7,626,242</u>	<u>9,801,032</u>
NET POSITION		
Net investment in capital assets	19,160,466	17,118,052
Restricted for debt service	1,640,029	1,640,030
Unrestricted	1,674,774	1,507,088
TOTAL NET POSITION	<u>22,475,269</u>	<u>20,265,170</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 30,101,511</u>	<u>\$ 30,066,202</u>

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

TRI-DAM POWER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

December 31, 2014 and 2013

	2014	2013
Operating Revenues		
Power generation revenues	\$ 3,607,595	\$ 4,806,491
Total Operating Revenues	<u>3,607,595</u>	<u>4,806,491</u>
Operating Expenses		
Operations	252,439	287,593
Maintenance	111,388	216,991
General and administrative	248,765	275,484
Depreciation	518,166	496,985
Total Operating Expenses	<u>1,130,758</u>	<u>1,277,053</u>
NET INCOME FROM OPERATIONS	2,476,837	3,529,438
Nonoperating Revenues (Expenses)		
Investment earnings	3,149	6,569
Interest expense	(269,887)	(367,420)
Total Nonoperating Revenues (Expenses)	<u>(266,738)</u>	<u>(360,851)</u>
CHANGE IN NET POSITION	2,210,099	3,168,587
Net position, beginning of year	20,265,170	18,596,583
Less: distributions to Member Districts		(1,500,000)
NET POSITION, END OF YEAR	<u>\$ 22,475,269</u>	<u>\$ 20,265,170</u>

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

TRI-DAM POWER AUTHORITY

STATEMENTS OF CASH FLOWS

December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	\$ 3,386,494	\$ 5,044,956
Cash payments to suppliers for goods & services	(218,890)	(536,705)
Cash payments to employees for services	3,485	(232,077)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,171,089</u>	<u>4,276,174</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Member Districts		(1,500,000)
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES		<u>(1,500,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(352,100)	(449,000)
Principal paid on long-term debt	(2,495,000)	(2,400,000)
Purchases of capital assets		(379,663)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,847,100)</u>	<u>(3,228,663)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,153	6,562
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,153</u>	<u>6,562</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	327,142	(445,927)
Cash and cash equivalents - beginning of year	<u>3,096,287</u>	<u>3,542,214</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,423,429</u>	<u>\$ 3,096,287</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Unrestricted cash and cash equivalents	\$ 1,783,400	\$ 1,456,257
Restricted cash and cash equivalents with fiscal agent	<u>1,640,029</u>	<u>1,640,030</u>
CASH AND CASH EQUIVALENTS	<u>\$ 3,423,429</u>	<u>\$ 3,096,287</u>

(Continued)

TRI-DAM POWER AUTHORITY
STATEMENTS OF CASH FLOWS (Continued)

December 31, 2014 and 2013

	2014	2013
Reconciliation of net income from operations to net cash provided by operating activities:		
Net income from operations	\$ 2,476,837	\$ 3,529,438
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	518,166	496,985
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses	4,029	3,070
Decrease (increase) in accounts receivable, power generation	(230,366)	238,465
Increase (decrease) in accounts payable	(1,326)	512
Increase (decrease) in accounts payable to Tri-Dam Project	390,999	(604)
Increase (decrease) in unearned revenue	9,265	
Increase (decrease) in compensated absences	371	5,911
Increase (decrease) in postemployment benefits	3,114	2,397
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,171,089	\$ 4,276,174

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

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A – REPORTING ENTITY AND 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. In addition, the Authority follows Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

Reporting Entity: 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 or until the Authority's debt, including interest thereon, is repaid unless extended by both parties. The Authority is governed by all five elected directors of the Oakdale Irrigation District and by 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 necessary improvements. The purpose of the Authority is to account for the activities related to the facilities above, as financed by the long-term debt described in the long-term liability footnote.

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

Basis of Presentation – Fund Accounting: 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.

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.

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Budgetary Principles: 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.

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.

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.

Restricted Assets: Certain proceeds of the Authority’s long-term debt are classified as restricted assets on the balance sheets because their use is limited by applicable bond covenants. The “reserve” account is used to report resources set aside to make up potential future deficiencies in the bond’s debt service.

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

Capital Assets: Capital assets are recorded at historical cost. Historical cost includes interest expense on debt capitalized during construction, if significant. Contributed assets are valued at estimated fair value on the date received. 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:

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

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences: The Authority's Memorandum of Understanding (MOU) allows employees to accumulate unused vacation and sick leave, subject to policy limits. Vacation is earned at the rate of 80 to 168 hours per year, depending upon the number of years of service. Sick leave is earned at the rate of 96 hours per year after the first year of service. All unused vacation and 25% of unused sick leave is paid upon separation. The liability for these compensated absences is recorded as a long-term liability in the balance sheet. 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.

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.

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

Power Generation Revenues: Power revenues are recognized pursuant to the terms and provisions of a Power Purchase Agreement with PG&E referred to as PG&E Standard Offer Number 4, dated July 12, 1984 (Agreement). Under the Agreement, which expires December 31, 2016, PG&E is to make monthly payments to the Tri-Dam Power Authority for energy and capacity delivered to PG&E during on-peak, partial-peak, and off-peak periods. The Authority is to be paid for energy deliveries at prices equal to PG&E's full short-run avoided operating costs (SRAC) under the agreement, which are California Public Utility Commission-approved costs forming the basis of PG&E's published energy prices.

Under the Agreement, the Authority is also to be paid for firm capacity of 15,000 kW. To receive firm capacity payments, the firm capacity is to be delivered for all of the on-peak hours in PG&E's peak months of June, July, and August, as specified in the Agreement. Monthly firm capacity payments are based upon formulas established in the Agreement. In the event the Authority does not provide the contract capacity, the capacity payments are to be readjusted for the actual amount delivered to PG&E, which may require the Authority to reimburse PG&E for any prior months' overpayment.

The Agreement was amended in 1995 to amend Article 4, "Energy Price", Appendix E, "Firm Capacity", and to add certain operating limitations to the Agreement in order to resolve a longstanding dispute regarding the amount of firm capacity to which the Authority was entitled to under the Agreement.

The Authority entered into a new power purchase and sale agreement with the City of Santa Clara, California through its municipal electric utility, Silicon Valley Power, which begins after the current contract with Pacific Gas & Electric ends on December 31, 2016. Under the agreement, the Authority agreed 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 Exhibit E of the agreement. The contract price in 2016 will be \$67 per MWh. The contract price includes scheduled increases ranging from 2.6% to 4.4% each year from 2017 through 2021 when the price is fixed through the remaining term of the agreement.

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. In addition, the Project has entered into an agreement with the Association of California Water Agencies Joint Power Insurance Authority to pool their purchasing needs with other agencies for health, accident, and dental insurance. No significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended December 31, 2014 and 2013. 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.

Related Party Transactions: Significant related party transactions consist primarily of cash distributions to the Member Districts that are charged directly to net position. The Authority’s Board selected Oak Valley Community Bank for its day-to-day banking activities. Two Board members own stock in the bank.

New Pronouncements: In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pensions plans to recognize their long-term obligation for pension benefits as a liability on the balance sheets and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this GASB Statement will have a significant impact on the Authority’s financial statements and is effective for the Authority’s December 31, 2015 financial statements.

In November 2013, the GASB approved Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB Statement No. 68 requires a state or local government employer to recognize a net pension liability measured as of a date (measurement date) no earlier than the end of its prior fiscal year. This Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. This Statement is required to be implemented simultaneously with Statement No. 68.

The Authority will fully analyze the impact of these new Statements prior to the effective dates listed above.

NOTE B – CASH AND INVESTMENTS

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

	2014	2013
Deposits with financial institutions	\$ 762,331	\$ 435,257
Money market mutual funds	1,019,587	1,019,521
Local Agency Investment Fund (LAIF)	1,482	1,479
Total unrestricted cash and cash equivalents	1,783,400	1,456,257
Money market mutual funds	1,640,029	1,640,030
Total restricted cash and cash equivalents with fiscal agent	1,640,029	1,640,030
Total cash and investments	\$ 3,423,429	\$ 3,096,287

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE B – CASH AND INVESTMENTS (Continued)

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

	2014	2013
Deposits with financial institutions	\$ 762,331	\$ 435,257
Total cash and deposits	762,331	435,257
Money market mutual funds	2,659,616	2,659,551
Local Agency Investment Fund (LAIF)	1,482	1,479
Total investments	2,661,098	2,661,030
Total cash and investments	\$ 3,423,429	\$ 3,096,287

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. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

The Authority's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
Local agency bonds	5 years	None	None
U.S. Treasury obligations	5 years	None	None
U.S. agency securities	5 years	None	None
California local agency debt	5 years	None	None
Bankers acceptances	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposits	5 years	30%	None
Repurchase agreements	1 year	20%	None
Medium term corporate notes	5 years	30%	None
Money market mutual funds	N/A	20%	10%
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, with the exception of the percentage limits for the money market mutual fund reported as part of unrestricted cash and cash equivalents. The money market mutual fund is invested in highly rated U.S. agency securities. This limit does not apply to the investment in money market mutual funds reported as restricted cash and cash equivalents with fiscal agents, which was authorized by debt agreements as described below. The Authority will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE B – CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements: Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority’s investment policy. The 2010 Revenue Refunding Bonds debt agreement contains certain provisions that address interest rate risk and credit risk, but not concentration of credit risk as follows:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
Local agency bonds	None	None	None
U.S. Treasury obligations	None	None	None
U.S. agency securities	None	None	None
Bankers acceptances	None	None	None
Commercial paper	None	None	None
Negotiable certificates of deposits	None	None	None
Investment agreements	None	None	None
Repurchase agreements	1 year	None	None
Medium term corporate notes	3 years	None	None
Mutual funds	N/A	None	None
LAIF	N/A	None	None

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 Authority 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 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.

Information about the sensitivity of the fair values of the Authority’s investments (including investments held by the bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority’s investments by maturity at December 31, 2014:

	Total	Remaining Maturity 12 Months or Less
Money market mutual funds	\$ 1,019,587	\$ 1,019,587
LAIF	1,482	1,482
Held by bond trustee:		
Money market mutual funds	1,640,029	1,640,029
Total	\$ 2,661,098	\$ 2,661,098

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE B – CASH AND INVESTMENTS (Continued)

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority’s investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

	Total	Minimum Legal Rating	Ratings as of Year End	
			AAA	Not Rated
Money market mutual funds	\$ 1,019,587	AAA/Aaa	\$ 1,019,587	
LAIF	1,482	N/A		\$ 1,482
Held by bond trustee:				
Money market mutual funds	<u>1,640,029</u>	AAA/Aaa	<u>1,640,029</u>	
	<u>\$ 2,661,098</u>		<u>\$ 2,659,616</u>	<u>\$ 1,482</u>

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.

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, 2014 and 2013, the carrying amount of the Authority’s deposits were \$762,331 and \$435,257 and the balances in financial institutions were \$762,628 and \$495,593, respectively. Of the balance in financial institutions at December 31, 2014 and 2013, \$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.

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, 2014 by all public agencies in LAIF is \$60,274,686,369 managed by the State Treasurer. Of that amount, 98.68% is invested in non-derivative financial products and 1.32% 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 an amortized cost basis.

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE C – CAPITAL ASSETS

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

	Balance at January 1, 2014	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2014
Capital assets, being depreciated:					
Hydroelectric production facilities	\$ 19,097,454				\$ 19,097,454
Conveyance tunnel	22,123,528				22,123,528
Roads and bridges	1,510,573				1,510,573
Other equipment	2,555,398				2,555,398
Total capital assets being depreciated, net	45,286,953				45,286,953
Accumulated depreciation:					
Hydroelectric production facilities	(9,774,537)	\$ (243,004)			(10,017,541)
Conveyance tunnel	(6,081,431)	(221,235)			(6,302,666)
Roads and bridges	(417,773)	(16,314)			(434,087)
Other equipment	(2,283,847)	(37,613)			(2,321,460)
Total accumulated depreciation	(18,557,588)	(518,166)			(19,075,754)
Capital assets depreciated, net	26,729,365	(518,166)			26,211,199
Capital assets, net	\$ 26,729,365	\$ (518,166)	\$ -	\$ -	\$ 26,211,199
	Balance at January 1, 2013	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2013
Capital assets, not being depreciated:					
Construction in Progress		\$ 249,687		\$ (249,687)	
Total capital assets, not being depreciated		249,687		(249,687)	
Capital assets, being depreciated:					
Hydroelectric production facilities	\$ 18,847,373	394		249,687	\$ 19,097,454
Conveyance tunnel	22,123,528				22,123,528
Roads and bridges	1,510,573				1,510,573
Other equipment	2,425,816	129,582			2,555,398
Total capital assets being depreciated, net	44,907,290	129,976		249,687	45,286,953
Accumulated depreciation:					
Hydroelectric production facilities	(9,547,963)	(226,574)			(9,774,537)
Conveyance tunnel	(5,860,196)	(221,235)			(6,081,431)
Roads and bridges	(401,459)	(16,314)			(417,773)
Other equipment	(2,250,985)	(32,862)			(2,283,847)
Total accumulated depreciation	(18,060,603)	(496,985)			(18,557,588)
Capital assets depreciated, net	26,846,687	(367,009)		249,687	26,729,365
Capital assets, net	\$ 26,846,687	\$ (117,322)	\$ -	\$ -	\$ 26,729,365

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE D – NONCURRENT LIABILITIES

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

	Balance at January 1, 2014	Additions	Repayments	Balance at December 31, 2014	Due within One Year
2011 Revenue Refunding Bonds	\$ 9,420,000		\$ (2,495,000)	\$ 6,925,000	\$ 2,595,000
Compensated absences	35,818	\$ 24,722	(24,351)	36,189	20,085
Other postemployment benefits	7,764	5,325	(2,211)	10,878	
Total noncurrent liabilities	9,463,582	<u>\$ 30,047</u>	<u>\$ (2,521,562)</u>	6,972,067	<u>\$ 2,615,085</u>
Unamortized bond premium	191,313			125,733	
Less: Current portion	<u>(2,515,237)</u>			<u>(2,615,085)</u>	
	<u>\$ 7,139,658</u>			<u>\$ 4,482,715</u>	
	Balance at January 1, 2013	Additions	Repayments	Balance at December 31, 2013	Due within One Year
2010 Revenue Refunding Bonds	\$ 11,820,000		\$ (2,400,000)	\$ 9,420,000	\$ 2,495,000
Compensated absences	29,907	\$ 28,014	(22,103)	35,818	20,237
Other postemployment benefits	5,367	4,911	(2,514)	7,764	
Total noncurrent liabilities	11,855,274	<u>\$ 32,925</u>	<u>\$ (2,424,617)</u>	9,463,582	<u>\$ 2,515,237</u>
Unamortized bond premium	256,893			191,313	
Less: Current portion	<u>(2,417,944)</u>			<u>(2,515,237)</u>	
Due in more than one year	<u>\$ 9,694,223</u>			<u>\$ 7,139,658</u>	

Description of Debt:

On September 23, 2010, the Authority issued 2010 Revenue Refunding Bonds (the Bonds) in the amount of \$16,400,000. The proceeds of the Bonds were used to refund the 2005 Note Payable from Bank of America, which previously refunded the debt used to construct the hydraulic turbine and generator in the vicinity of Sand Bar Flat Diversion Dam, together with the related diversion facility, conveyance tunnel, transmission line and access roads, bridges, land and improvements in 1982. The Bonds are secured by a lien on the net revenues of the Authority's electric system. Semi-annual principal payments of \$1,090,000 to \$2,165,000 and semi-annual interest payments of \$43,300 to \$236,400 are due on May 1 and November 1 from May 1, 2011 through November 1, 2016. Interest on the Bonds will be paid at 4% through the remaining term.

The Bonds are subject to a reserve requirement at any date of the lesser of (i) 10% of the principal amounts of the Bonds, (ii) an amount equal to the maximum annual debt service payments payable to maturity of the Bonds, or (iii) 125% of the average annual debt service payments payable through maturity of the Bonds. The Authority maintains a minimum of 10% of the original bond amount of \$1,640,000 in order to satisfy this covenant.

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE D – NONCURRENT LIABILITIES (Continued)

The requirements to amortize the outstanding business-type activities debt as of December 31 were as follows:

Year Ending December 31,	2010 Revenue Refunding Bonds		
	Principal	Interest	Total
2015	\$ 2,595,000	\$ 251,300	\$ 2,846,300
2016	4,330,000	129,900	4,459,900
	<u>\$ 6,925,000</u>	<u>\$ 381,200</u>	<u>\$ 7,306,200</u>

NOTE E – NET POSITION

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 designated net position balances at December 31:

	<u>2014</u>	<u>2013</u>
Maintenance reserve:		
For replacement and maintenance expenditures on water storage and delivery systems and hydroelectric generation facilities.	\$ 19,297	\$ 18,734
Operating reserve	<u>1,000,000</u>	<u>1,000,000</u>
Total committed net position	<u>\$ 1,019,297</u>	<u>\$ 1,018,734</u>

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

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

NOTE F – DISTRIBUTIONS TO MEMBER DISTRICTS

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

	<u>2014</u>	<u>2013</u>
Oakdale Irrigation District		\$ 750,000
South San Joaquin Irrigation District		<u>750,000</u>
Total distributions to Member Districts	<u>\$ -</u>	<u>\$ 1,500,000</u>

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE G – EMPLOYEES' RETIREMENT PLAN

Plan Description: The Authority, through Tri-Dam Project, contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. All full and part time employees working at least 1,000 hours per year are eligible to participate in CalPERS. Under CalPERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. Employees that were members of CalPERS as of January 1, 2013 participate in the Miscellaneous 2.5% at 55 Risk Pool and employees who were not members of CalPERS as of January 1, 2013 participate in the Miscellaneous 2.0% at 62 Risk Pool due to the implementation of the Public Employee's Pension Reform Act. Copies of the CalPERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy: Active plan members are required to contribute 8% of their annual covered salary, which is shared between the Authority and the employees. The Authority agrees to contribute approximately 5.7% of the employee's contribution and the employees contribute approximately 2.3% as specified in the related MOU. Contributions made on behalf of employees total \$13,647 and \$14,777 for the years ended December 31, 2014 and 2013, respectively. The contribution requirements of plan members and Tri-Dam Project (and the Authority) are established and may be amended by CalPERS.

Tri-Dam Project (and the Authority) are also required to contribute at an actuarially determined rate. The contribution percentages and amounts for each plan were as follows for the years ended December 31:

	July 1, 2014 to December 31, 2014	July 1, 2013 to June 30, 2014	January 1, 2013 to June 30, 2013
Contribution percentage:			
2.5% at 55 Risk Pool	15.70%	14.66%	13.91%
2.0% at 62 Risk Pool	6.25%	6.25%	None
	<u>Year Ended December 31</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contribution amount:			
2.5% at 55 Risk Pool	\$ 45,606	\$ 49,658	\$ 54,429
2.0% at 62 Risk Pool	4,387	None	None
	<u>\$ 49,993</u>	<u>\$ 49,658</u>	<u>\$ 54,429</u>

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The Authority's other postemployment benefits (OPEB) plan (the Plan) is a single-employer defined benefit healthcare plan administered by Tri-Dam Project. The Plan provides healthcare insurance coverage for eligible retirees through Tri-Dam Project's group medical insurance plan, which covers both active and retired participants. Employees are eligible to participate in the Plan if they have ten years of continuous service, attain age 55 and retire directly from Tri-Dam Project and the Authority. Since premiums are determined for active employees and retirees on a combined basis, an implied subsidy must be reflected under GASB 45. Benefit provisions are established and may be amended through agreements and memorandums of understanding between Tri-Dam Project and its employees as approved by the Tri-Dam Project Board of Directors. The Plan provides retired employees with group medical coverage and retired employees will reimburse Tri-Dam 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.

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

Funding Policy: The contribution requirements of the Plan participants and the Authority are established and may be amended by Tri-Dam Project and the Authority. The Authority’s funding commitment is in accordance with the MOU between Tri-Dam Project and its employees and subject to change with each new MOU. Employees are not required to contribute to the Plan. It is the policy of the Authority to fund postretirement healthcare premiums on a pay-as-you go basis. The Authority has no separate trust or plan assets.

Annual OPEB Cost and Net OPEB Obligation: The Authority’s annual other post-employment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Authority’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Authority’s Net OPEB obligation:

	2014	2013
Annual required contribution (ARC)	\$ 5,264	\$ 4,842
Interest on net OPEB obligation	61	69
Annual OPEB cost (expense)	5,325	4,911
Contributions made	(2,211)	(2,514)
Increase in net asset	3,114	2,397
Net OPEB obligation beginning of year	7,764	5,367
Net OPEB obligation (asset) - end of year	<u>\$ 10,878</u>	<u>\$ 7,764</u>

The Authority’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the new OPEB obligation for years ending December 31 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	\$ 5,476	52.98%	\$ 5,367
December 31, 2013	4,911	51.19%	7,764
December 31, 2014	5,325	41.53%	10,878

Funded Status and Funding Progress: The funded status of the Plan was as follows as of December 31:

	2014	2013
Actuarial accrued liability (AAL)	\$ 32,261	\$ 31,540
Actuarial value of plan assets		
Unfunded actuarial accrued (liability) asset (UAAL)	<u>\$ (32,261)</u>	<u>\$ (240,384)</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	\$ 208,168	\$ 240,384
UAAL as a percentage of covered payroll	15.50%	13.12%

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on the following page, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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, 2014 and 2013 valuations, the Authority elected to use the alternative measurement method as allowed under Governmental Accounting Standards Board Statement No. 45. The Authority computed its ARC using the unit cost credit method with UAAL amortized as a level dollar amount. The actuarial assumptions in 2014 include health premium increases of 3.1% to 8.5%, a 3.56% investment rate of return, and an 83% to 100% probability of remaining employed until retirement. The actuarial assumptions in 2013 include health premium increases of 5.0% to 8.5%, a 4.5% investment rate of return, and an 88% to 100% probability of remaining employed until retirement. The following assumptions were used for both 2014 and 2013: an average retirement age of 60 and an average life expectancy of more than 65 years. The initial UAAL was amortized as a level dollar amount over an open 30-year period as of December 31, 2014 and 2013, respectively.

NOTE I – CONTINGENCIES

Claims: The Authority is 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.

Effect of Drought: The Authority continues to be negatively impacted by the ongoing severe drought in California. As was the case last year, the 2014/2015 water year is certain to again be one of the worst on record, with precipitation and snow pack totals well-below historical averages. Moreover, the Authority's power generation capability is further subject to water conservation efforts by the Member Districts, which may have the effect of minimizing water releases from the Donnell and Beardsley Reservoirs. Through the first quarter of 2015, power generation has been reduced significantly, and the Authority's Sand Bar plant has been offline since March 1st.

Furthermore, Governor Jerry Brown's Executive Order B-29-15 issued on April 1, 2015, calls for mandatory water restrictions and other measures that will be implemented through emergency regulations to be adopted by the State Water Resources Control Board and the Department of Water Resources. It is unknown at this time what effect, if any, these emergency regulations may have on the Authority's operations.

Substantially mitigating the loss of energy generation revenue is the receipt of capacity payments from PG&E. The Authority's power sale agreement with PG&E requires that PG&E continue to pay capacity payments to the Authority, provided the only reason for a plant shutdown is a lack of sufficient river flows. It should also be noted that capacity payments increase considerably for the months of May through October. Management expects the Sand Bar plant to begin to generate minimal amounts of electricity in early May; however, the plant will likely continue to generate electricity at levels well below its historical average until conditions improve.

TRI-DAM POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2014 and 2013

NOTE I – CONTINGENCIES (Continued)

Nonetheless, management anticipates that normal cash flow will be sufficient to pay current expenses and debt service, and that the Authority's operating and debt service reserves will remain intact throughout the year. Also as a result of the drought, all budgeted capital expenditures for 2015 have been deferred into 2016 or beyond.

It is impossible to predict whether sufficient rain and snowfall will occur in the 2015/2016 water year to adequately restore flows on the middle fork of the Stanislaus River and return the Authority's Sand Bar plant to normal levels of power generation.

REQUIRED SUPPLEMENTARY INFORMATION

TRI-DAM POWER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2014 and 2013

SCHEDULE OF FUNDING PROGRESS OF THE
OTHER POSTEMPLOYMENT BENEFITS PLAN (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2012	\$ -	\$ 35,314	\$ 35,314	0.00%	\$ 262,075	13.47%
December 31, 2013	-	31,540	31,540	0.00%	240,384	13.12%
December 31, 2014	-	32,261	32,261	0.00%	208,168	15.50%

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 Commissioners
Tri-Dam Power Authority
Strawberry, California

We have audited, 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, the basic financial statements of the Tri-Dam Power Authority (the Authority) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 8, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given those 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 of 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*.

To the Commissioners
Tri-Dam Power Authority

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

Richardson & Company, LLP

April 8, 2015