TRI-DAM PROJECT

AUDITED FINANCIAL STATEMENTS

December 31, 2012

TRI-DAM PROJECT

AUDITED FINANCIAL STATEMENTS

December 31, 2012 and 2011

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Richardson & Company

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-Dam Project (the Project), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, 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 Project as of December 31, 2012 and 2011 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 Board of Directors
Tri-Dam Project

Report on Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information, 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 Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Project's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2013 on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations 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 Project's internal control over financial reporting and compliance.

Richardson & Company

April 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

TRI-DAM PROJECT

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

This discussion and analysis provides an overview of the Tri-Dam Project's (Project) financial position as of December 31, 2012 and 2011, along with the Project's financial performance for the years then ended. Condensed financial information for 2010 is also presented for comparison purposes. We encourage readers to consider the information presented here in conjunction with the more comprehensive financial statements, the notes to the financial statements, and the other additional information provided.

FINANCIAL HIGHLIGHTS

Key factors to consider when reading the financial statements:

- Total net position, the level by which total assets and deferred outflows exceed total liabilities, declined by $535,000, from $86.0 million at December 31, 2011 to $85.4 million at December 31, 2012. Although results of operations were positive, with net earnings of $12.1 million, distributions to the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts) exceeded net earnings, totaling $12.7 million for the year.
- Year-end total net position of $85.4 million was broken down between $60.4 million invested in capital assets and $25.0 million designated as unrestricted.
- For every dollar in current liabilities, the Project holds $23.36 in current assets, up from $16.16 as of year-end 2011.
- Operating revenues decreased from $24.9 million during 2011 to $20.5 million during 2012, reflecting lower energy generation revenue.
- Operating expenses increased from $7.5 million during 2011 to $7.7 million during 2012. The increase is primarily due to higher labor costs and depreciation expense, partially offset by lower power marketing costs. Excluding the increase in depreciation, total operating expenses declined by $129,000.
- Nonoperating revenues decreased from $440,000 during 2011 to $390,000 during 2012. The decline was primarily due to a reduction in gains on the sale of surplus property and lower water sales, partially offset by higher reimbursements from other governmental organizations.
- Nonoperating expenses decreased from $1.2 million during 2011 to $1.0 million during 2012. The decline was due to lower public relations and legal costs incurred to defend the Member Districts' water rights.
- In March 2012, the new Tulloch third generating unit was completed and placed in service. It is expected that this additional unit will substantially increase future power generation at the Tulloch facility.

FINANCIAL ANALYSIS OF THE PROJECT

This discussion and analysis is intended to serve as an introduction to the Project's 1) Basic Financial Statements, 2) Other Supplementary Information, and 3) Compliance Report. The financial data contained herein reflects the audited 2012 and 2011 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 changes in net position due to increases / decreases in assets, deferred outflows liabilities and deferred inflows. Increases or decreases in net position generally indicate improvement or deterioration in financial strength when analyzed over a period of years. However, increases and decreases in net position for Tri-Dam Project should always be analyzed in combination with the level and trend of distributions to its Member Districts, Oakdale Irrigation District and South San Joaquin Irrigation District.

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 / (loss) of a private company.

The Statement of Cash Flows breaks down the sources and uses of cash by activity, providing the detail of changes in the Project's cash and cash equivalents during the year. Cash flow sources and uses are categorized by the following: 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.

Other Supplementary Information
The Other Supplementary Information section provides even greater detail and expense breakdown by each of the Project's facilities and administrative activities.

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

BALANCE SHEET

The following table illustrates the Project's condensed balance sheet for 2012, 2011 and 2010.

	Condensed Balance Sheets				
	2012	2011	Increase (Decrease)	2010	Increase (Decrease)
Assets and Deferred Outflows					
Current Assets	$ 23,539,134	$ 26,299,621	$ (2,760,487)	$ 38,858,913	$ (12,559,292)
Capital Assets, Net	60,443,538	58,658,721	1,784,817	52,473,923	6,184,798
Deferred outflows	2,742,289	2,825,389	(83,100)	2,908,489	(83,100)
Total Assets and Deferred Outflows	$ 86,724,961	$ 87,783,731	$ (1,058,770)	$ 94,241,325	$ (6,457,594)
Liabilities					
Current and Other Liabilities	$ 1,093,274	$ 1,627,290	$ (534,016)	$ 2,047,233	$ (419,943)
Long-Term Liabilities	191,492	180,837	10,655	45,494	135,343
Total Liabilities	1,284,766	1,808,127	(523,361)	2,092,727	(284,600)
Net Position					
Net Investment in Capital Assets	60,443,538	58,658,721	1,784,817	52,473,923	6,184,798
Unrestricted	24,996,657	27,316,883	(2,320,226)	39,674,675	(12,357,792)
Total Net Position	85,440,195	85,975,604	(535,409)	92,148,598	(6,172,994)
Total Liabilities and Net Position	$ 86,724,961	$ 87,783,731	$ (1,058,770)	$ 94,241,325	$ (6,457,594)

Assets and Deferred Outflows
2012 compared to 2011 Current assets include the Project's cash and cash equivalents, and are comprised of approximately $9.6 million in deposits with financial institutions and $10.7 million in investments. Of the $10.7 million in investments, approximately $4.2 million, or 39.3 percent is managed by Highmark Capital Management and the remainder is held in money market funds (60.7 percent) and the State of California Local Agency Investment Fund (less than 1 percent). Current assets declined by $2.8 million during 2012, primarily due to payments made for the completion of the Tulloch third generating unit and cash distributions to Member Districts, net of cash inflows and outflows from operations.

Current assets also include various accounts receivable due to the Project in the normal course of business. The primary receivable is money due to the Project from Shell Energy North America (SENA) for wholesale electricity sales, totaling $2.2 million as of December 31, 2012. The Project was also due $321,000 from Pacific Gas & Electric (PG&E) for headwater benefits provided by the Project's hydroelectric facilities on the Middle Fork of the Stanislaus River.

Deferred outflows represent the capitalized costs incurred in renewing the Project's license with the Federal Energy Regulatory Commission (FERC) in 2005 that are being amortized on a straight line basis by $83,100 a year over an initial period of 40 years.

Capital assets, net of depreciation, increased by $1.8 million during 2012, primarily due to the completion of the Tulloch third generating unit. Also see the capital assets discussion later in this section.

Total assets and deferred outflows declined by $1.1 million during 2012 from $87.8 million to $86.7 million. The decline in total assets and deferred outflows was due to member distributions of $12.7 million, net of the Project's results of operations and cash inflows and outflows.

2011 compared to 2010 The Project's Cash and cash equivalents were comprised of approximately $8.7 million in deposits with financial institutions and $14.2 million in investments. Of the $14.2 million in investments, $2.0 million, or 14.1 percent were managed by Highmark Capital Management and the remainder was held in money market funds (85.8 percent) and the Local Agency Investment Fund (LAIF) (less than 1 percent).

Capital assets net of depreciation in 2011 increased $6.2 million, or 11.8 percent over 2010. The increase was primarily due to the continued construction of the Tulloch third generating unit.

Liabilities

2012 compared to 2011 The Project ended 2012 with total liabilities of $1.3 million, a decline of $523,000 from the prior year, primarily due to the completion of the Tulloch third generating unit. Liabilities generally consist of current accounts payable to various vendors and suppliers during the normal course of business, accrued salaries and benefits payable, and accrued compensated absences (vacation and sick leave) due to employees.

2011 compared to 2010 Liabilities decreased by $285,000 in 2011. The decline was primarily due to a lower level of accounts payable and the realization of unearned revenues that were outstanding as of year-end 2010. Unearned revenues decreased by $357,000, primarily as a result of the payment and recognition of PG&E headwater benefits and final settlement of an insurance claim.

Net Position

2012 compared to 2011 Total assets and deferred outflows exceeded liabilities by $85.4 million at December 31, 2012, a decline of $535,000 from year-end 2011, including a decline of $2.3 million in unrestricted net position. Although the Project remained profitable during 2012, with net earnings of $12.1 million, discretionary cash distributions to Member Districts exceeded net earnings. The Project is not a private company, and as such is not operated to only make a profit. Nonetheless, the Project is still managed in a manner that reasonably maximizes revenues and minimizes expenses in order to both maintain and improve capital facilities and maximize distributions to the Member Districts. The Member Districts, in turn, rely on cash distributions from the Project to help fulfill their obligations to recover the cost of providing services to their constituents and maintain and improve their capital facilities.

The Project's net position (total assets and deferred outflows less total liabilities) at the end of 2012 was invested in capital assets of $60.4 million and unrestricted net position of $25.0 million. The net investment in capital assets represents the Project's investment in reservoirs, dams, power plants and other infrastructure and equipment, the cost of which is recognized over the useful lives of these assets through depreciation expense (except land and construction-in-progress). Capital assets provide the Project with the ability to continue operations and do not represent liquid assets that can easily be used to pay future obligations. See the capital assets section in the notes to the financial statements for more information on the changes in this component of net position.

Unrestricted net position decreased due to distributions to Member Districts of $12.7 million and a greater investment in capital assets of $1.8 million, partially offset by net earnings of $12.1 million. Unrestricted net position are generally comprised of cash and cash equivalents (short term financial assets), along with various accounts receivable. Unrestricted items also include the Project's capitalized relicensing costs related to the renewal of its FERC license in 2005. This is a deferred outflow that cannot be used to pay for future obligations, but is instead amortized as a non-cash expense over the life of the license.

The Project does not have any reserves of net position that are mandated by external sources. However, the Project's Board of Directors has imposed minimum reserve balances which can be changed at the Board's discretion. These limits are in place to ensure proper reserve balances exist in the event of a system failure or to fund future projects. During 2012, the Project's maintenance reserve was exhausted in order to fully pay for the

Tulloch third generating unit without any new debt financing. With the completion of that unit, beginning in 2013, the maintenance reserve is now being replenished with a targeted increase of $1.5 million per year until fully funded in the amount of $15.0 million.

2011 compared to 2010 The Project's assets and deferred outflows exceeded liabilities by $86.0 million at December 31, 2011, a decline of $6.2 million from 2010, including a decline of $12.4 million in unrestricted net position. However, the decline in net position during 2011 was attributable to discretionary distributions to Member Districts and not a result of deteriorating results of operations. Specifically, the Project's change in net position (net profit before distributions) improved by $1.6 million during 2011. On an operating basis, the improvement was even greater, with net profit from operations increasing by $4.8 million during 2011.

The two components of the Project's net position were 1) investment in capital assets of $58.7 million, and 2) unrestricted net position of $27.3 million. The net investment in capital assets represents the Project's investment in capital assets that will be eliminated with depreciation. See the capital assets section in the notes to the financial statements for more information on the changes in this component of net position. Capital assets provide the Project with the ability to continue operations and do not represent liquid assets that could be used to pay future obligations. Unrestricted net position represents the remainder of net position. Unrestricted net position decreased due to distributions to Member Districts of $25.9 million, substantially offset by net profit of $19.7 million.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position details the results of operations over the course of a year.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2012	2011	Increase (Decrease)	2010	Increase (Decrease)
Operating Revenues	$ 20,489,380	$ 24,900,195	$ (4,410,815)	$ 19,322,875	$ 5,577,320
Operating Expenses	7,734,577	7,490,326	244,251	6,690,818	799,508
Net Operating Revenue (Expense)	12,754,803	17,409,869	(4,655,066)	12,632,057	4,777,812
Nonoperating Revenues	389,668	439,965	(50,297)	615,961	(175,996)
Nonoperating Expenses	1,011,880	1,222,600	(210,720)	1,786,302	(563,702)
Net Nonoperating Revenue (Expense)	(622,212)	(782,635)	160,423	(1,170,341)	387,706
Extraordinary item - business interruption insurance		3,110,000	(3,110,000)	6,639,395	(3,529,395)
Change in Net Position	12,132,591	19,737,234	(7,604,643)	18,101,111	1,636,123
Net Position, Beginning of Year	85,975,604	92,148,598	(6,172,994)	77,447,487	14,701,111
Less: Distributions to Member Districts	(12,668,000)	(25,910,228)	13,242,228	(3,400,000)	(22,510,228)
Net Position, End of Year	$ 85,440,195	$ 85,975,604	$ (535,409)	$ 92,148,598	$ (6,172,994)

Operating Revenues

2012 compared to 2011 Operating revenues declined $4.4 million from $24.9 million in 2011 to $20.5 million in 2012. The Project's primary revenue source remains the sale of wholesale electricity generated by its hydroelectric power plants. The Project sells 100 percent of its power through SENA under a contract that runs through December 2013. The decrease in power generation revenue was primarily due to historically low rain and snowfall totals, which reduced total generation by approximately 178,000 MWh versus the prior year. In addition, power prices remained relatively depressed throughout 2012.

Operating revenue also includes headwater benefit fees from PG&E, and totaled $321,000 in 2012, down from $381,000 in 2011. The decline in headwater benefit revenue was attributable to a change in the accounting cycle during which these fees are recognized; there was no change in the Project's agreement with PG&E.

2011 compared to 2010 Operating revenues increased $5.6 million in 2011 to $24.9 million. The increase in operating revenues was almost entirely due to improved rainfall and snow depths and the resulting increase in power generation.

Nonoperating Revenues
2012 compared to 2011 Nonoperating revenues also declined from $440,000 during 2011 to $390,000 during 2012. Nonoperating revenues are generally realized from ancillary types of activities unrelated to power generation, including reimbursements for operating and maintenance activities performed on behalf of other governmental entities, water sales, income from the rental of equipment and facilities owned by the Project, and investment income.

Reimbursements from other governmental entities relate to operating and maintenance activities performed by Tri-Dam on behalf of Stockton East Water District (SEWD) and the United States Bureau of Reclamation (USBOR). Reimbursements from SEWD represent one-third of the total operating and maintenance costs of Goodwin Dam, consistent with SEWD's one-third ownership of that facility with Oakdale Irrigation District and South San Joaquin Irrigation District. Reimbursements from the USBOR represent costs incurred by Tri-Dam for managing various operations in the New Melones afterbay, and are calculated based upon a set number of hours and prevailing Tri-Dam wage and overhead rates. During 2012, combined reimbursements for these activities totaled $172,000, an increase of $13,000 from the prior year.

Water sales, primarily to the Sierra Conservation Center, were modestly lower, totaling $97,000 for 2012, down from $115,000 in 2011. Water sales are based upon water usage and a predetermined rate schedule, adjusted annually for inflation.

Income from the rental of equipment and facilities owned by Tri-Dam consist of a 1) set fee charged to Tri-Dam Power Authority, 2) communication site rental income from a variety of other governmental entities and private communications companies, and 3) rental of housing owned by the Project. During 2012, rental income totaled $57,000, an increase of $6,000 from 2011.

During 2012, investment income was again lower, declining by $14,000, to $28,000. Moderately lower levels of investable funds, continued low market yields, and a conservative investment strategy led to the lower level of investment income. The lower level of investable funds throughout 2012 was primarily a result of cash payments made to complete construction of the Tulloch third generating unit, significantly offset by a reduction in Member distributions versus the prior year, net of cash inflows from operations.

Other non-operating income was relatively immaterial, and included gains on the sale of surplus vehicles, and permit fees relating to requests from Lake Tulloch homeowners to make various shoreline improvements.

2011 compared to 2010 Investment earnings again decreased during 2011, declining by $65,000, to $42,000. Lower levels of investable funds, continued low market yields, and a somewhat more conservative investment strategy led to the lower level of investment income. The lower level of investable funds throughout 2011 is a result of the use of cash to fund the construction of the Tulloch third generating unit and the significant increase in Member distributions. In addition, an extraordinary item in the amount of $3.1 million was received for a business interruption loss due to the Donnells generator outage.

Operating Expenses
2012 compared to 2011 Operating expenses increased $244,000 from $7.5 million during 2011 to $7.7 million during 2012. This increase was primarily due to an increase in wage and benefit costs, as several staff vacancies from 2011 were filled during 2012. In addition, depreciation expense increased by $373,000, primarily due to the Tulloch third generating unit being placed in service during the first half of the year. The increase in operating expenses was partially offset by lower power marketing costs resulting from a significant reduction in power generation. Refer to the Other Supplementary Information section for additional detail of operating expenses by facility, including a comparison of 2012 and 2011 wages, benefits, and other expenses by activity and category.

The memorandum of understanding with the union expired in March 2012 and negotiations relating to compensation, benefits and other labor matters are ongoing.

The Project anticipates substantial costs during 2013 for required Forest Service recreation improvements at Beardsley Reservoir as part of the Project's FERC license conditions. See Note I for a further discussion related to Forest Service recreation improvements.

2011 compared to 2010 Operating expenses increased $800,000 in 2011. This increase was primarily due to an increase in power marketing costs, wage increases of 4 percent in March of 2011, and increased depreciation expense resulting from new capital assets being placed in service. The increase in operating expenses was partially offset by various staff vacancies throughout the year.

Nonoperating Expenses
2012 compared to 2011 Nonoperating expenses represent the operating and maintenance costs of Goodwin Dam, and various river habitat studies – and the related legal costs – associated with defending the Member Districts' water rights on the Middle Fork of the Stanislaus River. In prior years, these costs were categorized as operating costs; however, for 2012, management has elected to disclose these costs separately in the statement of revenues and expenses in order to present a more comprehensive disclosure of the Project's expense profile. Prior year financial statements have also been adjusted for comparative purposes and to conform to the current year. For 2012, nonoperating expenses declined $211,000, to $1.0 million, primarily as a result of a decline of $181,000 in public relations fees and a $85,000 reduction in legal fees, all associated with supporting and defending the Member Districts' water rights. The Project expects to incur significant nonoperating costs for the foreseeable future.

2011 compared to 2010 Nonoperating expenses declined $564,000 to $1.2 million in 2011, primarily as a result of a decline of $605,000 in legal fees associated with defending the Member Districts' water rights, partially offset by increased public relations costs for the *Save the Stan* campaign.

Changes in Net Position
2012 compared to 2011 The change in net position (net income) decreased $7.6 million, or 38.5 percent in 2012. A well-below average rain and snowfall year significantly curtailed power generation at the Project's Donnells and Beardsley power plants relative to historical levels. The Project's Tulloch facility experienced an approximately 20 percent improvement from historical levels due to the addition of the third generating unit, although this improvement was not sufficient to offset the significant decline in generation from the Project's upper works facilities. Overall, generation was only approximately 76 percent of historical levels, and only approximately 66 percent of 2011 total generation. In addition, power prices remained depressed throughout 2012, reflecting weak general economic conditions and an abundant supply of natural gas, a close competing energy source. Finally, 2011 total revenues were further elevated from the receipt of a one-time $3.1 million insurance payment. Member distributions during 2012 declined by $13.2 million from 2011, resulting in a decline in net position after distributions of $535,000.

2011 compared to 2010 The change in net position (net income) increased $1.6 million, or 9.0 percent in 2011. Significantly improved power generation revenue due to above-normal precipitation was the primary reason for the increase. The improvement in power generation revenue was partially offset by a $176,000 reduction in non-operating revenues, and a $3.5 million lower extraordinary item related to insurance proceeds. Expenses were also higher in 2011 versus 2010, with operating expenses increasing $800,000, partially offset by a $564,000 reduction in nonoperating expenses. Member distributions increased by $22.5 million, resulting in a decline in net position after distributions (net worth) of $6.2 million.

CAPITAL ASSETS

	2012	2011	Increase (Decrease)
Land	$ 196,313	$ 196,313	$ -
Construction in progress	201,328	24,096,789	(23,895,461)
Dams and power plants	88,158,563	61,081,269	27,077,294
Power plant equipment	5,348,179	5,348,179	-
Telemetry equipment	3,039,218	3,039,218	-
Buildings	977,153	951,953	25,200
Other equipment	2,827,221	2,731,537	95,684
Total Capital Assets	100,747,975	97,445,258	3,302,717
Less: accumulated depreciation	(40,304,437)	(38,786,537)	(1,517,900)
Net Capital Assets	$ 60,443,538	$ 58,658,721	$ 1,784,817

At the close of 2012, the Project's investment in capital assets (net of accumulated depreciation) increased $1.8 million to $60.4 million, from $58.7 million at the end of 2011. Capital asset categories are land; construction in progress; dams and power plants; power plant equipment; telemetry equipment; buildings; and other equipment. By far the largest increase was $27.1 million in dams and power plants due to the activation of the Tulloch third generating unit, netted against a corresponding transfer of $23.9 million out of the construction in progress account. Construction in progress as of year-end totaled only $201,000, and consisted of several small projects and the ongoing installation of new excitation controls at Tulloch's number two generating unit totaling $121,000. Other capital asset additions during the year primarily consisted of new excitation controls at Tulloch's number one generating unit and several new vehicles.

Note C contains additional information regarding capital assets.

ECONOMIC FACTORS AND THE FUTURE

General economic conditions are expected to marginally improve during 2013. An improving housing market, slowly improving job market, and mild overall economic growth in California and the nation should provide enough strength to moderately improve energy prices. Thus far in 2013, natural gas prices have come off the lows of 2012, which has helped to also improve prices in the wholesale electricity market. Nonetheless, ample natural gas supply and increasing competition from other renewable energy sources such as wind and solar could limit further price improvements. Moreover, as was the case in the spring of 2012, well-below average snow depths could negatively impact the Project's generation capability unless conditions improve. The availability of the Tulloch third generating unit for the full year will provide additional generating capability and thus mitigate some of the market price risk and expected poor hydrologic conditions.

Expenses for 2013 are budgeted to increase due to several significant maintenance projects and increased regulatory and related costs. In addition, the Project anticipates substantial expenditures as a result of the commencement of the Beardsley recreation improvements. These improvements are required as part of the Project's 2005 license renewal with the FERC, and include the installation of a new campground off of Beardsley Road, the rehabilitation and accessibility improvements at the existing Beardsley campground and Beardsley day-use area, and the replacement and extension of the Beardsley boat ramp. It is expected that construction of these facilities will begin in April 2013 and be completed sometime during the spring of 2014.

Reserves and current cash flows will be utilized to fund all capital projects, including the Beardsley recreation improvements. The Project has also been awarded a $1.7 million grant from the California Department of Boating and Waterways (DBW) for the construction of the Beardsley boat ramp improvement. Management believes the grant from the DBW and the Project's existing reserve fund designated for these recreation improvements is adequate.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

TRI-DAM PROJECT

BALANCE SHEETS

December 31, 2012 and 2011

	2012	2011
TOTAL ASSETS AND DEFERRED OUTFLOWS		
ASSETS		
Current Assets		
Cash and cash equivalents	$ 16,054,760	$ 20,906,257
Investments	4,230,468	2,007,181
Accounts receivable:		
Headwater benefit fees, PG&E	321,165	312,201
Power generation, Shell Energy North America	2,201,869	2,626,057
Services receivable, Tri-Dam Power Authority	81,946	60,746
Other	476,426	206,957
Accrued interest receivable	11,795	30,575
Prepaid expenses and other assets	160,705	149,647
Total Current Assets	23,539,134	26,299,621
Noncurrent Assets		
Capital Assets		
Not depreciated	397,641	24,293,102
Depreciated, net	60,045,897	34,365,619
Total Capital Assets	60,443,538	58,658,721
TOTAL ASSETS	83,982,672	84,958,342
DEFERRED OUTFLOWS		
Federal Energy Regulatory Commission relicensing costs	3,323,989	3,323,989
Accumulated amortization	(581,700)	(498,600)
TOTAL DEFERRED OUTFLOWS	2,742,289	2,825,389
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 86,724,961	$ 87,783,731
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts payable	$ 593,975	$ 1,133,877
Accrued salaries and benefits	132,602	94,019
Unearned revenues	4,827	30,555
Deposits	55,911	55,911
Due to the Federal Energy Regulatory Commission	90,247	90,000
Compensated absences, current portion	215,712	222,928
Total Current Liabilities	1,093,274	1,627,290
Noncurrent Liabilities		
Compensated absences, noncurrent portion	143,807	152,756
Other postemployment benefits	47,685	28,081
Total Noncurrent Liabilities	191,492	180,837
TOTAL LIABILITIES	1,284,766	1,808,127
NET POSITION		
Net investment in capital assets	60,443,538	58,658,721
Unrestricted	24,996,657	27,316,883
TOTAL NET POSITION	85,440,195	85,975,604
TOTAL LIABILITIES AND NET POSITION	$ 86,724,961	$ 87,783,731

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

TRI-DAM PROJECT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Power generation revenues	$ 20,168,215	$ 24,519,128
Headwater benefit fees	321,165	381,067
Total Operating Revenues	20,489,380	24,900,195
Operating Expenses		
Operations	1,262,641	1,175,094
Maintenance	1,208,393	1,297,470
General and administrative	2,706,240	2,622,733
Power generation marketing	898,975	1,109,625
Depreciation and amortization	1,658,328	1,285,404
Total Operating Expenses	7,734,577	7,490,326
NET INCOME FROM OPERATIONS	12,754,803	17,409,869
Nonoperating Revenues (Expenses)		
Investment earnings	27,719	41,655
Water sales	97,057	114,902
Rental of equipment and facilities	56,811	51,270
Gain on disposal of capital assets	12,087	34,546
Other nonoperating revenue	24,161	38,564
Reimbursements	171,833	159,028
River habitat studies	(736,346)	(966,209)
Goodwin Dam expenses	(275,534)	(256,391)
Total Nonoperating Revenues (Expenses)	(622,212)	(782,635)
Extraordinary item - business interruption insurance proceeds		3,110,000
CHANGE IN NET POSITION	12,132,591	19,737,234
Net position, beginning of year	85,975,604	92,148,598
Less: distributions to Member Districts	(12,668,000)	(25,910,228)
NET POSITION, END OF YEAR	$ 85,440,195	$ 85,975,604

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

TRI-DAM PROJECT

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	$ 20,592,403	$ 25,119,632
Other operating receipts	265,273	372,687
Cash payments to suppliers for goods and services	(4,872,162)	(4,643,188)
Cash payments to employees for services	(1,712,778)	(1,526,274)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,272,736	19,322,857
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Member Districts	(12,668,000)	(25,910,228)
Extraordinary item - business interruption insurance proceeds		3,110,000
Other net nonoperating revenues and expenses	(931,487)	(852,422)
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES	(13,599,487)	(23,652,650)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(3,360,045)	(7,387,102)
Proceeds from disposal of capital assets	12,087	34,546
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(3,347,958)	(7,352,556)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(5,876,122)	
Proceed from sales of investment securities	3,630,000	3,265,000
Interest received	69,334	153,307
NET CASH (USED) PROVIDED BY INVESING ACTIVITIES	(2,176,788)	3,418,307
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,851,497)	(8,264,042)
Cash and cash equivalents - beginning of year	20,906,257	29,170,299
CASH AND CASH EQUIVALENTS- END OF YEAR	$ 16,054,760	$ 20,906,257
Reconciliation of net income from operations to net cash provided by operating activities:		
Net income from operations	$ 12,754,803	$ 17,409,869
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,658,328	1,285,404
Changes in operating assets and liabilities:		
Decrease (increase) in power generation receivable	424,188	600,504
Decrease (increase) in other receivables	(30,164)	35,545
Decrease (increase) in prepaid expenses and other assets	(11,058)	(37,311)
Increase (decrease) in accounts payable	(539,902)	(51,817)
Increase (decrease) in accrued salaries and benefits	38,583	(12,812)
Increase (decrease) in deferred revenue	(25,728)	(43,925)
Increase (decrease) in due to FERC	247	
Increase (decrease) in compensated absences	(16,165)	118,447
Increase (decrease) in other postemployment benefits	19,604	18,953
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 14,272,736	$ 19,322,857
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Change in the fair value of investments	$ 48,156	$ (25,831)

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

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity: The Tri-Dam Project is a joint venture of the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts) entered into under a joint cooperation agreement on January 21, 1948. The Project is an organization that is jointly governed by the Member Districts and is not organized as a separate public agency according to State regulations. The Member Districts each retain their one-half interest in the assets and liabilities of the Project. The Project consists of irrigation and power development on the Middle-Fork of the Stanislaus River, including the Donnells dam, tunnel, power plant, Beardsley dam, reservoir and power plant, Tulloch dam, reservoir and power plant, Goodwin dam, reservoir and several ancillary facilities. The Project’s principal activities are the storage and delivery of water to the Districts and the hydraulic generation of electricity. These activities are carried out pursuant to the Districts’ water rights and the Districts’ licenses issued by the Federal Energy Regulatory Commission (FERC). The Member Districts have an operations agreement with the United States Bureau of Reclamation (USBR) that recognizes and confirms the Member Districts’ water rights and requires the USBR to make available to the Member Districts the first 600,000 acre feet of inflow to New Melones Reservoir each year.

Oversight responsibility, meaning the ability to appoint management and key employees, and authorize and approve contracts and financing arrangements, is exercised by a joint board of directors consisting of all five elected directors of the Oakdale Irrigation District and all five elected directors of the South San Joaquin Irrigation District. The Project issues financial statements as a separate reporting entity because of the historical joint exercise of oversight responsibility by both Member Districts.

The Tri-Dam Power Authority (the Authority), is a related entity formed in 1982, under a Joint Exercise of Powers Agreement between the two Member Districts. Although it operated jointly with the Project, the Authority’s activity is excluded from the accompanying financial statements because it is a separate legal entity that issues separate financial statements as required by its debt agreement. While the Authority has the same joint board of directors as does the Project, the Project is not responsible for debts or other obligations of the Authority, nor is the Authority responsible for the debts or obligations of the Project.

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

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 total position.

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

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

Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the Project. Operating revenues consist primarily of power generation revenue. Nonoperating revenues and expense consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. Expenses incurred to comply with the Project's FERC license are considered operating expenses. Goodwin Dam operating and maintenance expenses are considered nonoperating as the dam has no hydroelectric operations and is maintained on behalf of the member districts. Expenses incurred to protect member district water rights that are not directly related to power generation, such as fish and water quality studies not required by the Project's FERC license and related legal expenses, are reported as nonoperating expenses.

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

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

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

Accounts Receivable: Trade accounts receivable are carried at net realizable values. The Project records power generation receivables for energy deliveries to Shell Energy North America (SENA) and certain energy-related amounts due from Pacific Gas and Electric Company (PG&E). The Project has determined that an allowance for doubtful accounts was not necessary.

Capital Assets: Capital assets are recorded at historical cost. 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:

Class of Capital Asset	Estimated Lives in Years
Dams and power plants	10-99
Power plant equipment	5-99
Telemetry equipment	5-99
Buildings	10-50
Other equipment	5-50

It is the Project's policy to capitalize all capital assets with a cost of $5,000 or more. 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.

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

Capitalized FERC Relicensing Costs: The Project completed the process in 2005 of applying for license renewals from the FERC for the Project's hydroelectric generating facilities. The former 50-year licenses expired on December 31, 2004 with extensions through 2005. New licenses were issued in February 2006 for all existing facilities. The licenses extend through December 31, 2045.

The relicensing process involved a substantial commitment of staff resources, formal consultation with several federal and state agencies, the acceptance of public input, the conduct of numerous studies, and the public filing of documents and reports. The process was undertaken cooperatively with PG&E. PG&E has FERC-licensed facilities in the same watershed. The Project incurred $3,323,989 in relicensing costs between 2000 and 2005. The Project will amortize these costs over the 40 year term of the new licenses. It is anticipated that conditions attached to the new license will require the expenditure of $7.75 million in Project funds over the next few years for recreation and wildlife-related activities. Such expenditures will be reflected as administrative expenses in the year in which they are incurred. The license also requires minimum water flows on the Middle Fork of the Stanislaus River that could result in less water available for power generation during dry years.

The unamortized FERC relicensing costs are classified as deferred outflows of resources under GASB Statement No. 63, which is a consumption of net assets applicable to a future reporting period.

Unearned Revenues: Unearned revenues arise when resources are received in exchange transactions before the Project has a legal claim to them. Unearned revenues at December 31, 2012 consisted of miscellaneous receipts for future services. Unearned revenues at December 31, 2011 consisted mainly of $23,555 of stream gaging revenue for 2012 received from Stockton East Water District.

Compensated Absences: The Project's Memorandum of Understanding (MOU) with employees 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 statement of net position. The current portion of this liability is estimated based on historical trends. The cost of compensated absences is recorded in the period it is incurred.

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 assets. 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: The Project recognizes power generation revenues pursuant to the terms and provisions of a five year Master Power Purchase and Sale Agreement (the Agreement) between the Member Districts and Shell Energy North America ("SENA" or "Shell") effective January 1, 2009. This agreement replaced a similar agreement with PG&E. The Project had considered alternatives to PG&E due to changes in the power market that made the PG&E agreement less favorable than market terms offered by SENA. The Project continues to receive headwater benefit payments from PG&E for operating adjustments made by the Project for the benefit of downstream facilities owned by PG&E.

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

The Agreement provides, generally, that the Districts shall sell and deliver to SENA during the term of the Agreement, as well as certain other documents and agreements, all of the electric power and energy generated by Donnells power plant, Beardsley power plant, and Tulloch power plant. The Agreement provides for a commission to SENA based on the actual value of the energy delivered and certain ancillary services. SENA markets the power for the benefit of the Project to find the highest and best use of the power generated. Under the agreement, SENA coordinates with Project personnel to adjust operations to maximize the benefit of power generated at Project facilities.

Extraordinary Income: During 2009, the Donnells generator went out of operation and needed to be replaced. The Project received the final $3,110,000 of business interruption insurance proceeds for this incident during 2011. This event met the criteria to be reported as an extraordinary gain in the statement of revenues, expenses and changes in net position.

Risk Management: The Project is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The commercial insurance is subject to a deductible. In addition, the Project has entered into an agreement with the Association of California Water Agencies Joint 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, 2012 and 2011. 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 Project's Board selected Oak Valley Community Bank for its day-to-day banking activities. Two Board members own stock in the bank.

Reclassifications: Certain 2011 nonoperating expenses were reclassified out of operating expenses to conform to the current presentation. These reclassifications had no effect on the previously reported change in net position.

New Pronouncements: Effective January 1, 2012, the Project implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows and inflows of resources, which Concepts Statement No. 4 introduced and defined those elements as consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement amends the net assets reporting requirements of Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and by renaming that measure as net position, rather than net assets.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for periods beginning after December 15, 2012.

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions.* This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position 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 Project's financial statements and is effective for the Project's December 31, 2015 financial statements.

The Project 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:

	2012	2011
Cash and cash equivalents		
Cash on hand	$ 300	$ 300
Deposits with financial institutions	9,547,887	8,688,345
Money market mutual funds	6,500,908	12,211,968
Local Agency Investment Fund (LAIF)	5,665	5,644
Total cash and cash equivalents	16,054,760	20,906,257
Investments		
Investments held by Union Bank	4,230,468	2,007,181
Total investments	4,230,468	2,007,181
Total cash and investments	$ 20,285,228	$ 22,913,438

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

	2012	2011
Cash and cash equivalents		
Cash on hand	$ 300	$ 300
Deposits with financial institutions	9,547,887	8,688,345
Total cash and deposits	9,548,187	8,688,645
U.S. agency securities	2,604,714	
Commercial paper	943,366	
Medium corporate term notes	682,388	2,007,181
Money market mutual funds	6,500,908	12,211,968
Local Agency Investment Fund (LAIF)	5,665	5,644
Total investments	10,737,041	14,224,793
Total cash and investments	$ 20,285,228	$ 22,913,438

NOTE B – CASH AND INVESTMENTS (Continued)

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Local agency bonds	5 years	None	None
U.S. Treasury obligations	5 years	None	None
U.S. agency securities	5 years	None	None
California local agency debt	5 years	None	None
Bankers acceptances	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates and time 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 Project complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements, with the exception of the investment in the Highmark Treasury Plus money market mutual fund exceeding the 20% maximum percentage of the portfolio limits above. The Project will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Project manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Project's investment policy does not contain any provisions limiting interest rate risk that are more restrictive than what is specified in the California Government Code.

Information about the sensitivity of the fair values of the Project's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Project's investments by maturity at December 31, 2012:

		Remaining Maturity
	Total	12 Months or Less
U.S. agency securities	$ 2,604,714	$ 2,604,714
Commercial paper	943,366	943,366
Medium term corporate notes	682,388	682,388
Money market mutual funds	6,500,908	6,500,908
LAIF	5,665	5,665
Total	$ 10,737,041	$ 10,737,041

NOTE B – CASH AND INVESTMENTS (Continued)

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Project's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

		Minimum	Ratings as of Year End			
	Total	Legal Rating	AAA/AA+	A1/AA-	A2/A+	Not Rated
U.S. agency securities	$ 2,604,714	N/A	$ 2,604,714			
Commercial paper	943,366	A1/P1		$943,366		
Medium term corporate notes	682,388	A	455,531		$226,857	
Money market mutual funds	6,500,908	AAA/Aaa	6,500,908			
LAIF	5,665	N/A				$ 5,665
	$10,737,041		$ 9,561,153	$943,366	$226,857	$ 5,665

Concentration of Credit Risk: The investment policy of the Project limits the amount that can be invested in any one issuer to the California Government Code. The California Government Code limits the amount that may be invested in any one issuer, as disclosed in the preceding table. GASB Statement No. 40 requires disclosure of investments with one issuer exceeding 5% of total investments, with the exception of U.S. Treasury obligations, mutual funds and external investment pools. There were no concentrations of investments at December 31, 2012.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Project's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At December 31, 2012 and 2011, the carrying amount of the Project's deposits were $9,547,887 and $8,688,345 and the balances in financial institutions were $9,617,997 and $8,819,195, respectively. Of the balances in financial institutions, $356,004 and $275,896 at December 31, 2012 and 2011 were covered by federal depository insurance and the remaining amounts were secured by a pledge of securities by the financial institution, but not in the name of the Project.

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, 2012 by all public agencies in LAIF is $63,285,169,902 and is managed by the State Treasurer. Of that amount, 98.1% is invested in non-derivative financial products and 1.9% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the Project's investment in this pool is reported in the accompanying financial statements at amounts based upon the Project's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE C – CAPITAL ASSETS

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

	Balance at January 1, 2012	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2012
Capital assets, not being depreciated:					
Land	$ 196,313				$ 196,313
Construction in progress	24,096,789	$ 2,198,963		$(26,094,424)	201,328
Total capital assets not being depreciated	24,293,102	2,198,963		(26,094,424)	397,641
Capital assets, being depreciated:					
Dams and power plants	61,081,269	1,004,186		26,073,108	88,158,563
Power plant equipment	5,348,179				5,348,179
Telemetry equipment	3,039,218				3,039,218
Buildings	951,953	3,884		21,316	977,153
Other equipment	2,731,537	153,012	$ (57,328)		2,827,221
Total capital assets being depreciated	73,152,156	1,161,082	(57,328)	26,094,424	100,350,334
Accumulated depreciation:					
Dams and power plants	(33,544,576)	(1,040,988)			(34,585,564)
Power plant equipment	(1,183,299)	(164,732)			(1,348,031)
Telemetry equipment	(1,573,766)	(108,196)			(1,681,962)
Buildings	(634,617)	(24,448)			(659,065)
Other equipment	(1,850,279)	(236,864)	57,328		(2,029,815)
Total accumulated depreciation	(38,786,537)	(1,575,228)	57,328		(40,304,437)
Total capital assets being depreciated, net	34,365,619	(414,146)		26,094,424	60,045,897
Capital assets, net	$58,658,721	$ 1,784,817	$ -	$ -	$60,443,538

NOTE C – CAPITAL ASSETS (Continued)

	Balance at January 1, 2011	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2011
Capital assets, not being depreciated:					
Land	$ 196,313				$ 196,313
Construction in progress	19,851,209	$ 6,877,275		$(2,631,695)	24,096,789
Total capital assets not being depreciated	20,047,522	6,877,275		(2,631,695)	24,293,102
Capital assets, being depreciated:					
Dams and power plants	59,802,327	46,218		1,232,724	61,081,269
Power plant equipment	3,636,054	374,111		1,338,014	5,348,179
Telemetry equipment	3,013,225	25,993			3,039,218
Buildings	951,953				951,953
Other equipment	2,607,075	63,505		60,957	2,731,537
Total capital assets being depreciated	70,010,634	509,827		2,631,695	73,152,156
Accumulated depreciation:					
Dams and power plants	(32,869,391)	(675,185)			(33,544,576)
Power plant equipment	(1,034,272)	(149,027)			(1,183,299)
Telemetry equipment	(1,466,010)	(107,756)			(1,573,766)
Buildings	(608,206)	(26,411)			(634,617)
Other equipment	(1,606,354)	(243,925)			(1,850,279)
Total accumulated depreciation	(37,584,233)	(1,202,304)			(38,786,537)
Total capital assets being depreciated, net	32,426,401	(692,477)		2,631,695	34,365,619
Capital assets, net	$52,473,923	$ 6,184,798	$ -	$ -	$58,658,721

Construction in progress included approximately $24 million at December 31, 2011 for the addition of a third generator unit at Tulloch Reservoir to augment the two existing units. A contract for the second and final phase was awarded in 2009 and continued through March of 2012, when the project was completed.

NOTE D – LONG-TERM LIABILITIES

The activity of long-term liabilities during the years ended December 31 was as follows:

	Balance at January 1, 2012	Additions	Repayments	Balance at December 31, 2012	Due within One Year
Compensated absences	$ 375,684	$ 157,453	$ (173,618)	$ 359,519	$ 215,712
Other postemployment benefits	28,081	39,038	(19,434)	47,685	
	$ 403,765	$ 196,491	$ (193,052)	$ 407,204	$ 215,712

NOTE D – LONG-TERM LIABILITIES (Continued)

	Balance at January 1, 2011	Additions	Repayments	Balance at December 31, 2011	Due within One Year
Compensated absences	$ 257,237	$ 250,259	$ (131,812)	$ 375,684	$ 222,928
Other postemployment benefits	9,128	38,356	(19,403)	28,081	
	$ 266,365	$ 288,615	$ (151,215)	$ 403,765	$ 222,928

Letter of Credit: The Project was required by PG&E to have a letter of credit of $500,000 with Oak Valley Community Bank to ensure the Project has the resources to reimburse costs incurred by PG&E on the third generator unit project at Tulloch Reservoir. The letter of credit has never been used by the Project and matures in February 2013. The interest rate that the Project would be subject to under the letter at December 31, 2012 is 7.25% and the line of credit would be collateralized by a bank deposit account should it be used.

NOTE E – NET POSITION

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

	2012	2011
Maintenance reserve		$ 2,000,000
Operating reserve	$ 6,000,000	6,000,000
Insurance reserve	4,700,000	4,700,000
Total commited net position	$ 10,700,000	$ 12,700,000

The maintenance reserve was approved by the Board to be used for the third generator unit project at Tulloch Reservoir, which was completed during 2012. The resolution establishing the maintenance and insurance reserves provide for increases in the reserve each year by an amount equal to the change in the Consumer Price Index (CPI), rounded to the nearest $50,000. The operating reserve does not have a provision to increase the reserve based on the CPI.

NOTE F – DISTRIBUTIONS TO MEMBER DISTRICTS

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

	2012	2011
Oakdale Irrigation District	$ 6,334,000	$ 12,955,114
South San Joaquin Irrigation District	6,334,000	12,955,114
Total distributions to Member Districts	$ 12,668,000	$ 25,910,228

NOTE G – EMPLOYEES' RETIREMENT PLAN

Plan Description: The Project contributes to the California Public Employees Retirement System (PERS), a cost-sharing agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. All full and part time Project employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, 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. The project is a member of the Miscellaneous 2.5% at 55 Risk Pool. Copies of the PERS 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 Project and the employees. The Project 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 Project employees total $113,257 and $109,396 for the years ended December 31, 2012 and 2011, respectively. The Project is also required to contribute at an actuarially determined rate: the rate for January 1 to June 30, 2011 was 10.263%, the rate for July 1, 2011 to June 30, 2012 was 13.353%, and the rate from July 1 to December 31, 2012 was 13.914%. The contribution requirements of plan members and the Project are established and may be amended by PERS. The Project's total contributions for years ended December 31, 2012, 2011, and 2010 were $380,603, $325,698 and $261,984, respectively.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The Project's other postemployment benefits (OPEB) plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Project. The Plan provides healthcare insurance coverage for eligible retirees through the 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 the Project. 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 the Project and its employees as approved by the Directors. The Plan provides that the Project will continue to provide retired employees group medical coverage and that retired employees will reimburse the Project for one-half of their health insurance costs for up to ten years of benefits. At age 65 the retired employee is dropped from coverage and becomes eligible to participate in the federal government's Medicare insurance program.

Funding Policy: The contribution requirements of the Plan participants and the Project are established and may be amended by the Project. The Project's funding commitment is in accordance with a Memorandum of Understanding (MOU) with 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 Project to fund postretirement healthcare premiums on a pay-as-you go basis. The Project has no separate trust or plan assets.

Annual OPEB Cost and Net OPEB Obligation: The Project'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.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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

	2012	2011
Annual required contribution (ARC)	$ 38,522	$ 37,807
Interest on net OPEB obligation	516	549
Annual OPEB cost (expense)	39,038	38,356
Contributions made	(19,434)	(19,403)
Increase in net OPEB obligation	19,604	18,953
Net OPEB obligation beginning of year	28,081	9,128
Net OPEB obligation (asset) - end of year	$ 47,685	$ 28,081

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

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	$ 27,121	66.34%	$ 9,128
December 31, 2011	38,356	50.59%	28,081
December 31, 2012	39,038	49.78%	47,685

Funded Status and Funding Progress: As of December 31, 2012, the Plan was not funded. The Plan operates on a pay-as-you go basis.

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 below, 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.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

For the December 31, 2012 and 2011 valuations, the Project elected to use the alternative measurement method as allowed under Governmental Accounting Standards Board Statement No. 45. The Project computed its ARC using the unit cost credit method with UAAL amortized as a level dollar amount. The actuarial assumptions include health premium increases of 5.2% to 8.3% in 2012 and 4.0% to 9.4% in 2011 and the following assumptions for both 2012 and 2011: a 4.0% investment rate of return, an average retirement age of 60, a 93% to 100% probability of remaining employed until retirement 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, 2012 and 2011, respectively.

The following table represents required supplementary information for the Plan.

Required Supplementary Information
Other Postemployment Benefits Plan (OPEB)
Schedule of Funding Progress for OPEB Plan

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 (b)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2010	$ -	$ 216,958	$ 216,958	0.00%	$ 1,636,250	13.26%
December 31, 2011	-	246,700	246,700	0.00%	1,650,862	14.94%
December 31, 2012	-	236,601	236,601	0.00%	1,755,858	13.47%

NOTE I – CONTINGENCIES AND COMMITMENTS

Water Rights: The State Water Resources Control Board (SWRCB) continues to periodically conduct hearings relating to the development and implementation of a water quality control plan(s) for the San Francisco Bay and Sacramento/San Joaquin Delta. If implemented, these plans could, among other measures, affect the amount and timing of water to be released into the Delta by water rights holders such as Oakdale Irrigation District and South San Joaquin Irrigation District. The implementation of these plans could also negatively impact the Project's power generating activities on the Stanislaus River. The Districts are actively involved in these and other regulatory proceedings and litigation related to water rights and water supply. It is not possible to determine the potential cost or financial impact of the Plan(s) to the Districts or the Project.

Tulloch Power Generation: The CVPIA passed by Congress in 1992 provides for substantial changes in operation of the New Melones Reservoir. The impact of these changes upon power generation at the Tulloch plant cannot be presently determined, but may be significant because power generation at Tulloch is controlled by New Melones operating conditions. The addition of a third generating unit at Tulloch will provide greater flexibility to address changes in water flows out of New Melones.

Claims: The Project is a party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the Project's legal counsel believe that there are no loss contingencies that would have a material adverse impact on the financial position of the Project.

Commitments: The Project had an outstanding contractual commitment for the painting of gates at Tulloch Reservoir. The commitments represent contract commitments to one contractor in the amount of $356,800 at December 31, 2012. The project was completed in January 2013.

NOTE I – CONTINGENCIES AND COMMITMENTS (Continued)

FERC License Renewal Commitment: Under a collection agreement entered into with the USDA, Forest Service, the Project will construct recreation facilities at Beardsley and Donnells Reservoirs as part of the recreation implementation plan required as part of the approval of the Project's FERC license. The Project will construct improvements to campgrounds, day use areas and a boat ramp under the agreement, which is expected to total approximately $6.0 million under current estimates. The Project has been awarded a grant of $1.7 million from the California Department of Boating and Waterways to assist with the reconstruction of the boat launch at Beardsley Reservoir.

OTHER SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES – OPERATIONS, MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2012 and 2011

	2012	2011
Donnells Facility:		
Operations		
Supervision wages and benefits	$ 21,936	$ 24,496
Hydraulic wages and benefits	8,610	6,045
Electric wages and benefits	204,930	212,935
Other wages and benefits	30,152	55,599
Supplies and materials	7,724	7,485
Total Operations	273,352	306,560
Maintenance		
Supervision wages and benefits	14,812	37,218
Structures wages and benefits	2,055	10,630
Reservoirs and dams wages and benefits	13,223	17,991
Electrical plant wages and benefits	54,649	96,212
Other wages and benefits	8,114	22,190
High voltage wages and benefits		1,811
Communications and security wages and benefits	10,767	12,662
Supplies and materials	27,027	57,241
Total Maintenance	130,647	255,955
Power generation marketing	483,451	609,247
Total Donnells Facility	887,450	1,171,762
Beardsley Facility:		
Operations		
Supervision wages and benefits	20,133	22,654
Hydraulic wages and benefits	19,209	23,034
Electric wages and benefits	176,889	177,441
Other wages and benefits	21,914	62,140
Supplies and materials	6,206	6,272
Total Operations	244,351	291,541
Maintenance		
Supervision wages and benefits	114,958	142,435
Structures wages and benefits	25,658	26,888
Reservoirs and dams wages and benefits	17,786	12,540
Electrical plant wages and benefits	68,846	56,614
Other wages and benefits	7,874	8,727
High voltage wages and benefits		2,737
Communications and security wages and benefits	8,854	11,714
Supplies and materials	26,510	34,656
Total Maintenance	270,486	296,311

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES – OPERATIONS, MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2012 and 2011

	2012	2011
General and Administrative		
Other wages and benefits		$ 6,387
USFS resource management support	$ 120,354	132,302
Other		
Total General & Administrative	120,354	138,689
Power generation marketing	98,055	197,543
Total Beardsley Facility	733,246	924,084
Tulloch Facility:		
Operations		
Supervision wages and benefits	95,467	56,076
Hydraulic wages and benefits	43,287	34,597
Electric wages and benefits	285,229	224,994
Other wages and benefits	13,925	23,609
Supplies and materials	13,231	5,903
Total Operations	451,139	345,179
Maintenance		
Supervision wages and benefits	120,545	78,822
Structures wages and benefits	41,734	8,826
Reservoirs and dams wages and benefits	22,625	29,122
Electrical plant wages and benefits	177,644	130,464
Other wages and benefits	4,755	12,377
High voltage wages and benefits	4,162	6,456
Communications and security wages and benefits	32,663	11,584
Supplies and materials	70,316	68,180
Total Maintenance	474,444	345,831
General and Administrative		
Supplies and materials	10,855	
Headwater benefit assessment	90,494	90,247
Other	3,846	3,604
Total General and Administrative	105,195	93,851
Power generation marketing	317,469	302,835
Total Tulloch Facility	1,348,247	1,087,696

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES – OPERATIONS, MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2012 and 2011

	2012	2011
Mt Elizabeth Facility:		
Operations		
Supplies and materials	$ 12,314	$ 9,938
Maintenance		
Supervision wages and benefits		2,319
Structures wages and benefits	381	830
Other wages and benefits	3,229	2,760
Communications and security wages and benefits	2,816	7,909
Supplies and materials	8,204	5,660
Total Maintenance	14,630	19,478
Total Mt. Elizabeth Facility	26,944	29,416
Strawberry Peak Facility:		
Operations		
Supplies and materials	7,059	7,394
Maintenance		
Supervision wages and benefits		787
Structures wages and benefits		661
Other wages and benefits	4,411	2,708
Communications and security wages and benefits	8,590	8,363
Supplies and materials	11,157	8,424
Total Maintenance	24,158	20,943
Total Strawberry Peak	31,217	28,337
Operations Center:		
Operations		
Supervision wages and benefits	20,131	19,869
Electric wages and benefits	99,621	42,339
Supplies and materials	5,116	7,013
Total Operations	124,868	69,221
Maintenance		
Supervision wages and benefits		938
Structures wages and benefits	1,937	663
Other wages and benefits	8,566	1,355
Communications and security wages and benefits	23,222	35,934
Supplies and materials	3,427	4,162
Total Maintenance	37,152	43,052
Total Operations Center	162,020	112,273

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES – OPERATIONS, MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2012 and 2011

	2012	2011
Service Center Facilities:		
Maintenance		
Structures wages and benefits	$ 7,351	$ 645
Other wages and benefits		111
Supplies and materials	237,527	291,725
Total Maintenance	244,878	292,481
Total Service Center	244,878	292,481
Division Point Facility:		
Operations		
Supervision wages and benefits	20,131	20,584
Hyrdraulic wages and benefits	27,558	19,527
Electric wages and benefits	98,909	103,749
Supplies and materials	2,960	1,401
Total Operations	149,558	145,261
Maintenance		
Structures wages and benefits	1,895	
Reservoirs and dams wages and benefits	3,302	882
Other wages and benefits	1,161	3,918
Communications and security wages and benefits	4,392	11,492
Supplies and materials	1,248	7,127
Total Maintenance	11,998	23,419
Total Division Point	161,556	168,680
Total Operations and Maintenance	2,471,034	2,472,564
Overall General and Administrative:		
Outside services	667,775	613,274
Administrative wages and benefits	640,776	484,960
FERC license fees	271,854	447,755
Property insurance	444,726	335,837
Safety fees and expense	114,769	125,339
Other wages and benefits-mobile equip. operation	55,953	79,739
Streamgaging	66,181	56,645
Office supplies and expense	41,440	69,097
Utilities	39,172	46,907
Meals allowance and travel expense	35,056	37,408
Telephone, internet, data links	17,421	29,897
Miscellaneous	(8,172)	39,611
Computer supplies	21,082	18,547
Professional organizations	6,865	3,588
County taxes	65,793	1,589
Total Overall General and Administrative	2,480,691	2,390,193

TRI-DAM PROJECT

SUPPORTING SCHEDULES OF EXPENSES – OPERATIONS,
MAINTENANCE, GENERAL AND ADMINISTRATIVE

December 31, 2012 and 2011

	2012	2011
Total General and Administrative	$ 2,706,240	$ 2,622,733
Total Power Generation Marketing	898,975	1,109,625
Depreciation and Amortization		
Depreciation on capital assets	1,575,228	1,202,304
FERC relicensing amortization	83,100	83,100
Total Depreciation and Amortization	1,658,328	1,285,404
TOTAL OPERATING EXPENSES	$ 7,734,577	$ 7,490,326
SUMMARY OF OPERATING EXPENSES BY TYPE		
Operations	$ 1,262,641	$ 1,175,094
Maintenance	1,208,393	1,297,470
General and administrative	2,706,240	2,622,733
Power generation marketing	898,975	1,109,625
Depreciation and amortization	1,658,328	1,285,404
TOTAL OPERATING EXPENSES	$ 7,734,577	$ 7,490,326

COMPLIANCE REPORT

Richardson & Company

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

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

We have audited, in accordance with 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 financial statements of the Tri-Dam Project (the Project) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Project's basic financial statements, and have issued our report thereon dated April 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Project's internal control over financial reporting (internal control) to determine the 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 Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 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 these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free 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*.

We noted certain other matters that we reported to management of the Project in a separate letter dated April 15, 2013.

To the Board of Directors
Tri-Dam Project

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

April 15, 2013

TRI-DAM PROJECT

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended December 31, 2012

CURRENT YEAR FINDINGS:

None

STATUS OF PRIOR YEAR FINDINGS:

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Condition: The Project's capital assets were misstated.

Effect: Capital assets needed to be reconciled to the supporting detail records and a number of adjustments needed to be posted to correct the balances of capital assets and accumulated depreciation, which delayed the completion of the audit.

Recommendation: We recommend capital asset transactions be posted periodically throughout the year. Ideally capital asset entries should be posted on a monthly or quarterly basis. The detail list of capital assets should be reconciled to the general ledger after updating the list for current activity. It appears the December 31, 2011 capital asset records were properly reconciled at the conclusion of the audit.

Status of Prior Year Finding: The recommendation was implemented during the year ended December 31, 2012.