TRI-DAM PROJECT

AUDITED FINANCIAL STATEMENTS

December 31, 2013

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December 31, 2013 and 2012

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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, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Project as of December 31, 2013 and 2012 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

Other Matters

Required Supplementary Information

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

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 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 14, 2014 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 14, 2014

MANAGEMENT'S DISCUSSION
AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013

This discussion and analysis provides an overview of the Tri-Dam Project's (Project) financial position as of December 31, 2013 and 2012, along with the Project's financial performance for the years then ended. Condensed financial information for 2011 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 exceed total liabilities, declined by $553,000, from $85.4 million at December 31, 2012 to $84.9 million at December 31, 2013. Although results of operations were positive, with net earnings of $12.6 million, distributions to the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts) exceeded net earnings, totaling $13.2 million for the year.

- Year-end total net position of $84.9 million was broken down between $59.2 million invested in capital assets and $25.7 million designated as unrestricted.

- For every dollar in current liabilities, the Project holds $18.87 in current assets, down from $21.53 as of year-end 2012. The decrease is attributable to a lower level of cash and investments, which is primarily attributable to the costs of the Beardsley Reservoir recreation improvements required by the Project's Federal Energy Regulatory Commission (FERC) license.

- Operating revenues increased from $20.5 million during 2012 to $22.5 million during 2013, reflecting increased energy generation revenue as a result of improved market prices.

- Operating expenses increased from $7.8 million during 2012 to $10.4 million during 2013. The increase is primarily due to costs associated with the Beardsley Reservoir recreation improvements, higher administrative expenses, higher maintenance costs, higher labor costs and higher depreciation expense.

- Nonoperating revenues increased from $438,000 during 2012 to $1.9 million during 2013. The increase was primarily due to grant revenue earned from construction of the Beardsley boat launch, a component of the Beardsley Reservoir recreation improvements.

- Nonoperating expenses increased from $1.0 million during 2012 to $1.4 million during 2013. The increase was due to higher river habitat studies and monitoring.

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 2013 and 2012 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 and liabilities. 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, the Oakdale Irrigation District and the 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 2013, 2012 and 2011.

	Condensed Balance Sheets				
	2013	2012	Increase (Decrease)	2011	Increase (Decrease)
Assets and Deferred Outflows					
Current Assets	$ 19,749,272	$ 23,539,134	$ (3,789,862)	$ 26,299,621	$ (2,760,487)
Capital Assets, Net	59,230,494	60,443,538	(1,213,044)	58,658,721	1,784,817
Deferred Outflows	7,193,773	2,742,289	4,451,484	2,825,389	(83,100)
Total Assets and Deferred Outflows	$ 86,173,539	$ 86,724,961	$ (551,422)	$ 87,783,731	$ (1,058,770)
Liabilities					
Current and Other Liabilities	$ 1,046,439	$ 1,093,274	$ (46,835)	$ 1,627,290	$ (534,016)
Long-Term Liabilities	240,278	191,492	48,786	180,837	10,655
Total Liabilities	1,286,717	1,284,766	1,951	1,808,127	(523,361)
Net Position					
Net Investment in Capital Assets	59,230,494	60,443,538	(1,213,044)	58,658,721	1,784,817
Unrestricted	25,656,328	24,996,657	659,671	27,316,883	(2,320,226)
Total Net Position	84,886,822	85,440,195	(553,373)	85,975,604	(535,409)
Total Liabilities and Net Position	$ 86,173,539	$ 86,724,961	$ (551,422)	$ 87,783,731	$ (1,058,770)

Assets
2013 compared to 2012
Current assets declined by $3.8 million during 2013, primarily due to payments made for the completion of the Beardsley recreation improvements and cash distributions to Member Districts, net of cash inflows and outflows from operations. Current assets include the Project's cash, cash equivalents and investments, and are comprised of approximately $8.0 million in deposits with financial institutions and $7.5 million in investments. Nearly all of the Project's investments (more than 99 percent) are managed by Highmark Capital Management, while the remainder is held in money market funds and the State of California Local Agency Investment Fund.

Current assets also include various accounts receivable due the Project. The primary receivable at December 31, 2013, is $2.0 million due from Shell Energy North America (SENA) for wholesale electricity sales. In addition, current assets include $1.4 million due from the California Department of Boating and Waterways, representing the remainder of a grant for construction of the Beardsley boat launch. Other various accounts receivable due to the

Project in the normal course of business include $328,000 due from Pacific Gas & Electric for headwater benefits provided by the Project's hydroelectric facilities on the Middle Fork of the Stanislaus River.

Noncurrent assets represent the Project's capital assets. For 2013, capital assets, net of accumulated depreciation, decreased by $1.2 million as a result of normal depreciation and the disposal or retirement of approximately $870,000 of capital assets from the Project's books, net of capital asset additions of $608,000. Also see the capital assets discussion later in this section.

Deferred outflows of resources represent the capitalized costs incurred in renewing the Project's license with FERC in 2005, and the costs incurred during 2013 to construct Phase I of the Beardsley recreation improvements, a condition of the Project's FERC license. The legal and administrative costs initially incurred to renew the Project's FERC license totaled $3.3 million, and are being amortized on a straight line basis by $83,100 a year over an initial period of 40 years (ending in 2045). Excluding the boat launch component, the costs incurred to substantially complete Phase I of the Beardsley recreation improvements totaled approximately $4.6 million during 2013, and are also being amortized over the remaining term of the Project's FERC license. Phase II of the Beardsley recreation improvements are significantly less than Phase I, and are anticipated to total only $150,000 and be completed during the spring of 2014.

2012 compared to 2011

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 included the Project's cash, cash equivalents and investments, and were comprised of approximately $9.5 million in deposits with financial institutions and $10.7 million in investments. Of the $10.7 million in investments, approximately $4.2 million was managed by Highmark Capital Management and $6.5 million held in money market funds. The Project also held a small investment (less than 1.0 percent of total investments) with the State of California Local Agency Investment Fund.

Current assets also included various accounts receivable due to the Project in the normal course of business. The primary receivable at December 31, 2012, was $2.2 million due from SENA for wholesale electricity sales. The Project was also due $321,000 from Pacific Gas & Electric for headwater benefits.

Noncurrent assets represented the Project's capital assets, and increased by $1.8 million during 2012, primarily due to the completion of the Tulloch third generating unit.

Deferred outflows in 2012 represented the capitalized legal and administrative costs incurred in renewing the Project's license with FERC, and are being amortized on a straight line basis by $83,100 a year over an initial period of 40 years.

Liabilities

2013 compared to 2012

The Project ended 2013 with total liabilities of $1.3 million, unchanged from the prior year. Liabilities primarily consist of current accounts payable in the normal course of business of $298,000, accrued salaries and benefits payable of $123,000, and accrued compensated absences (vacation and sick leave) due to employees of $403,000. Current liabilities also include a FERC relicensing liability of $238,000, representing the expected remaining Phase I and Phase II costs of the Beardsley recreation improvements.

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 primarily consisted of current accounts payable to various vendors and suppliers during the normal course of business of $594,000, accrued salaries and benefits payable of $133,000, and accrued compensated absences due to employees of $360,000.

Net Position

2013 compared to 2012

The Project's net position at the end of 2013 was invested in capital assets of $59.2 million and unrestricted assets of $25.7 million. Total assets and deferred outflows exceeded liabilities by $84.9 million at December 31, 2013, a decrease of $553,000 from year-end 2012. 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. The Project's capital asset additions totaled $608,000 during 2013, while capital asset retirements and surplus sales totaled $870,000.

Unrestricted net position increased by $660,000 versus the prior year; however, the increase is primarily attributable to an increase in deferred outflows of resources related to the costs to construct Phase I of the Beardsley recreation improvements, rather than an increase in current assets, which declined by $3.8 million. The Beardsley recreation improvements are a condition of approval of the Project's FERC license, and, once completed, will not be owned by the Project. Instead, the completed improvements will be assigned to the United States Department of Agriculture, Forest Service, who owns the property and will maintain the improvements. Therefore, these improvements are not considered capital assets of the Project, but are instead similar to an intangible asset and classified as a deferred outflow in the Project's financial statements. The costs of the improvements are recognized as amortization expense over the remaining term of the Project's FERC license.

As with the prior year, discretionary cash distributions to Member Districts exceeded net income (change in net position). 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 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.

2012 compared to 2011

The Project's net position at the end of 2012 was invested in capital assets of $60.4 million and unrestricted assets of $25.0 million. Total assets and deferred outflows exceeded liabilities by $85.4 million at December 31, 2012, a decrease of $535,000 from year-end 2011.

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, substantially offset by net income of $12.1 million. Unrestricted assets were generally comprised of cash, cash equivalents and investments, along with various accounts receivable. Unrestricted assets also included the Project's capitalized relicensing costs related to the renewal of its FERC license in 2005.

The Project did not have any reserves of net position that were mandated by external sources. However, the Project's Board of Directors imposed minimum reserve balances to ensure funds existed in the event of a system failure or to pay for 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 began to be replenished, with a targeted increase of $1.5 million per year until fully funded in the amount of $15.0 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				
	2013	2012	Increase (Decrease)	2011	Increase (Decrease)
Operating Revenues	$ 22,500,866	$ 20,489,380	$ 2,011,486	$ 24,900,195	$ (4,410,815)
Operating Expenses	10,364,681	7,783,142	2,581,539	7,490,326	292,816
Net Operating Revenue (Expense)	12,136,185	12,706,238	(570,053)	17,409,869	(4,703,631)
Nonoperating Revenues	1,897,179	438,233	1,458,946	439,965	(1,732)
Nonoperating Expenses	1,422,737	1,011,880	410,857	1,222,600	(210,720)
Net Nonoperating Revenue (Expense)	474,442	(573,647)	1,048,089	(782,635)	208,988
Extraordinary item - business interruption insurance	--	--	--	3,110,000	(3,110,000)
Change in Net Position	12,610,627	12,132,591	478,036	19,737,234	(7,604,643)
Net Position, Beginning of Year	85,440,195	85,975,604	(535,409)	92,148,598	(6,172,994)
Less: Distributions to Member Districts	(13,164,000)	(12,668,000)	(496,000)	(25,910,228)	13,242,228
Net Position, End of Year	$ 84,886,822	$ 85,440,195	$ (553,373)	$ 85,975,604	$ (535,409)

Operating Revenues
2013 compared to 2012
Operating revenues increased $2.0 million from $20.5 million in 2012 to $22.5 million in 2013. The Project's primary revenue source remains the sale of wholesale electricity generated by its hydroelectric power plants. During 2013, the Project sold 100 percent of its power through SENA under a contract that expired on December 31, 2013. Although total power generation was nearly identical to the prior year, wholesale power prices improved considerably during 2013 versus 2012, resulting in improved operating revenue. Rain and snowfall totals were again well-below average, resulting in below average generation of approximately 350,000 MWh. Operating revenue also includes headwater benefit fees from PG&E, which totaled $328,000 in 2013. Headwater benefit fees are adjusted for inflation, and increased by $6,000 from the prior year.

Beginning January 1, 2014, the Project entered into a new power purchase and sale agreement with the City of Santa Clara, California through its municipal electric utility, Silicon Valley Power. See Note A of the financial statements for additional information regarding this agreement.

2012 compared to 2011
Operating revenues declined $4.4 million from $24.9 million in 2011 to $20.5 million in 2012. The decrease in power generation revenue was primarily due to below average 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 included 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.

Nonoperating Revenues
2013 compared to 2012
Nonoperating revenues increased substantially during the year, from $438,000 during 2012, to $1.9 million in 2013. Nonoperating revenues are generally realized from ancillary types of activities unrelated to power generation, and include reimbursements for operation and maintenance activities performed by the Project on behalf of other governmental entities, water sales, income from rental of equipment and facilities owned by the Project, and investment income. The substantial increase in nonoperating revenue during 2013 was entirely attributable to the recognition of $1.5 million from a grant from the California Department of Boating and Waterways to assist in the construction of the Beardsley Reservoir boat launch, which is a component of Phase I of the Beardsley recreation improvements. Excluding the grant revenue, nonoperating revenues would have increased $35,000 from the prior year.

Reimbursements from other governmental entities relate to operation and maintenance activities performed by Tri-Dam on behalf of Stockton East Water District (SEWD) and the United States Bureau of Reclamation (USBR). Reimbursements from SEWD represent one-third of the total operating and maintenance costs of Goodwin Dam, consistent with SEWD's one-third ownership of that facility with the Oakdale Irrigation District and the South San Joaquin Irrigation District. Reimbursements from the USBR 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 2013, combined reimbursements for these activities totaled $172,000, identical to the prior year.

Water sales, primarily to the Sierra Conservation Center, were higher, totaling $128,000 for 2013, up from $97,000 in 2012. 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 1) a monthly set fee charged to Tri-Dam Power Authority, 2) communication site rental income from a variety of other governmental entities and private communications companies, and 3) rental of housing owned by the Project. During 2013, rental income totaled $65,000, up from $57,000 in 2012.

Investment income increased $16,000 to $44,000 during 2013. Although average investable funds were lower during 2013 due to the liquidation of the Project's self-insurance reserve to help pay for Phase I of the Beardsley recreation improvements, investment income improved from the prior year as a result of slightly higher market yields and an extension of maturities on the remaining investment portfolio. The Project began replenishing the maintenance reserve fund during 2013, partially offsetting the elimination of the self-insurance fund.

Other nonoperating income was relatively immaterial, and is comprised primarily of permit fees relating to requests from Lake Tulloch homeowners to make various shoreline improvements.

2012 compared to 2011
Nonoperating revenues declined from $440,000 during 2011 to $438,000 during 2012. The primary nonoperating revenues during 2012 were reimbursements received from SEWD for operation and maintenance costs associated with Goodwin Dam, and from the USBR for managing various operations in the New Melones afterbay. The combined reimbursements for these activities totaled $172,000 in 2012, an increase of $13,000 from the prior year.

Other nonoperating revenue during 2012 was primarily attributable to water sales, income from the rental of equipment and facilities owned by Tri-Dam, and investment income. Water sales, primarily to the Sierra Conservation Center, were modestly lower, totaling $97,000 for 2012, down from $115,000 in 2011. Rental income totaled $57,000, up from $51,000 in 2011, while investment income totaled $28,000, down from $42,000 in 2011. The Project also recognized $49,000 in grant revenue for the Beardsley boat launch project.

Other non-operating revenue during 2012 was relatively immaterial, and included gains on the sale of surplus vehicles, and permit fees.

Operating Expenses
2013 compared to 2012
Operating expenses increased from $7.8 million during 2012, to $10.4 million during 2013. This increase was primarily due to $1.5 million in expenses attributable to the Beardsley boat launch, which is considered a current period general and administrative operating expense. In addition, maintenance expense increased by $415,000, primarily due to the cost of painting the spill gates at Tulloch Dam. Wage and benefit costs increased by $198,000 during 2013, primarily due to increased benefit costs and the ratification of a new memorandum of understanding with the International Brotherhood of Electrical Workers Union. Upon ratification of the new MOU, wage and

salary increases for both represented and unrepresented employees were made retroactive to the expiration of the prior MOU in March 2012.

Other significant operating expenses included an increase of $231,000 in depreciation and amortization expense resulting from a full year operation of the Project's new Tulloch third generating unit, and the commencement of amortization on the Phase I Beardsley recreation improvements (excluding the boat launch component of that project). In addition, general and administrative expenses, exclusive of the boat launch expense, also increased due to higher legal costs and engineering and consulting fees paid for a seismic analysis of Donnells Dam and Tulloch Dam spillway. Finally, power generation marketing fees paid to SENA increased $107,000 due to increased power generation revenue.

Refer to the Other Supplementary Information section for additional detail of operating expenses by facility, including a comparison of 2013 and 2012 wages, benefits, and other expenses by activity and category.

2012 compared to 2011

Operating expenses increased $293,000 from $7.5 million during 2011 to $7.8 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 overall administrative expenses and lower power marketing costs resulting from a significant reduction in power generation.

Nonoperating Expenses

2013 compared to 2012

Nonoperating expenses represent the operation and maintenance costs of Goodwin Dam, and various ongoing studies (and the related legal costs), associated with monitoring the Stanislaus River fish habitat and defending the Member Districts' water rights. For 2013, nonoperating expenses increased $411,000, to $1.4 million, primarily as a result of an increase in costs related to fish migration monitoring and river geomorphology studies. Operation and maintenance costs related to Goodwin Dam were slightly lower at $270,000, a decrease of $6,000 from the prior year. The Project expects to incur significant nonoperating costs for the foreseeable future.

2012 compared to 2011

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 an $85,000 reduction in legal fees, all associated with supporting and defending the Member Districts' water rights.

Changes in Net Position

2013 compared to 2012

The change in net position (net income) increased $478,000, or 3.9 percent, to $12.6 million in 2013. As discussed previously, although power generation remained well-below the Project's historical average, and virtually unchanged from the prior year, market prices improved considerably during 2013. As a result, power generation revenue increased by slightly more than $2.0 million. Although grant revenue earned for the construction of the boat launch component of the Phase I Beardsley recreation improvements was the primary reason nonoperating revenues increased, an identical amount of expense was incurred; therefore, the net effect on the change in net position was zero.

Nonetheless, total expenses increased, even after adjusting for the boat launch costs. Operating expenses exclusive of boat launch costs increased by $1.2 million, while nonoperating expenses increased $411,000. Accordingly, the increase in total expenses offset a significant portion of the increase in total revenues.

2012 compared to 2011

The change in net position decreased $7.6 million, or 38.5 percent, to $12.1 million 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 20.0 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 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.

CAPITAL ASSETS

	2013	2012	Increase (Decrease)
Land	$ 196,313	$ 196,313	$ -
Construction in progress	119,394	201,328	(81,934)
Dams and power plants	88,590,673	88,158,563	432,110
Power plant equipment	5,235,714	5,348,179	(112,465)
Telemetry equipment	2,729,348	3,039,218	(309,870)
Buildings	977,153	977,153	-
Other equipment	2,637,469	2,827,221	(189,752)
Total Capital Assets	100,486,064	100,747,975	(261,911)
Less:accumulated depreciation	(41,255,570)	(40,304,437)	(951,133)
Net Capital Assets	$ 59,230,494	$ 60,443,538	$ (1,213,044)

At the close of 2013, the Project's investment in capital assets (net of accumulated depreciation) decreased $1.2 million to $59.2 million, from $60.4 million at the end of 2012. The decline was attributable to normal depreciation of $1.7 million, the retirement of assets with an original book value of $764,000 deemed obsolete, and the sale of surplus property, primarily vehicles, with an original book value of $106,000, net of new capital asset purchases and additions of $608,000. The most significant capital asset additions during 2013 included the final payments on the Tulloch third generating unit totaling $253,000, additional payments of $94,000 to complete the installation of a new SCADA master station, and additional payments of $50,000 to complete the installation of new excitation controls for the Tulloch second generating unit. The Project also purchased two new vehicles during the year.

It should be noted that the Beardsley recreation improvements, including the boat launch component, are not considered capital assets since the Project has constructed these improvements as a condition of its 2005 FERC license approval. Moreover, the Project does not own the land or related improvements, and will not be responsible for ongoing maintenance of the land or improvements.

Construction in progress as of year-end totaled only $119,000, and consisted of several relatively small projects. Note C to the financial statements contains additional information regarding capital assets.

ECONOMIC FACTORS AND THE FUTURE

General economic conditions are expected to continue to marginally improve during 2014. An improving housing market, slowly improving job market, and moderate overall economic growth in California and the nation should provide enough strength to continue to improve energy prices. However, as mentioned previously, the Project entered into a new power purchase and sale agreement with the City of Santa Clara, California. That agreement is for a 10-year term, and provides for a fixed contract price for all electrical energy, capacity attributes and any renewable energy credits or other environmental attributes generated by the Project, thus eliminating any market price fluctuations to the Project. For 2014, the agreement calls for a fixed contract price of $63 per MWh. The contract price includes scheduled increases ranging from 2.6 percent to 4.4 percent each year from 2015 through 2021 when the price is fixed through the year 2023.

Although the new power sale agreement essentially eliminates Tri-Dam's exposure to fluctuations in wholesale energy prices, the Project remains exposed to the ongoing severe drought in California. The 2013/2014 water year will likely be one of the worst on record, with average precipitation expected to be approximately one-third of the historical average according to the California Department of Water Resources. Moreover, the Project's power generation capability is further subject to water conservation efforts by the Member Districts, which may have the effect of minimizing water releases from the Donnells and Beardsley Reservoirs. Through the first quarter of 2014, power generation has been reduced significantly, and the Project will likely continue to generate electricity at levels well below its historical average until conditions improve.

Also as a result of the drought, expenses for 2014 are budgeted under a worst case scenario, with no increases in staff and minimal capital expenditures. Management has analyzed the impact of deferring certain capital projects into 2015 or beyond, with only those projects deemed immediately necessary to be implemented in 2014. The largest capital project remaining in the 2014 budget is $402,000 for the engineering, procurement and installation of two new generator breakers at the Beardsley powerhouse switchyard. Project staff will also focus primarily on improving routine maintenance and other functions, along with other relatively low cost upgrades to the Project's infrastructure. The remaining Phase I and Phase II Beardsley Reservoir recreation improvements are expected to be completed during the spring of 2014.

Reserves and current cash flows will be utilized to fund all capital projects. In addition, the Project expects to receive $1.4 million from the California Department of Boating and Waterways, representing the remainder of the grant earned during 2013 for the construction of the Beardsley boat launch.

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, 2013 and 2012

	2013	2012
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current Assets		
Cash and cash equivalents	$ 8,041,426	$ 16,054,760
Investments	7,481,389	4,230,468
Accounts receivable:		
Headwater benefit fees, PG&E	327,517	321,165
Power generation, Shell Energy North America	1,990,487	2,201,869
Grants receivable	1,443,163	
Services receivable, Tri-Dam Power Authority	81,342	81,946
Other	209,859	476,426
Accrued interest receivable	14,173	11,795
Prepaid expenses and other assets	159,916	160,705
Total Current Assets	19,749,272	23,539,134
Noncurrent Assets		
Capital Assets		
Not depreciated	315,707	397,641
Depreciated, net	58,914,787	60,045,897
Total Capital Assets	59,230,494	60,443,538
TOTAL ASSETS	78,979,766	83,982,672
DEFERRED OUTFLOWS OF RESOURCES		
Federal Energy Regulatory Commission relicensing costs	7,941,235	3,323,989
Accumulated amortization	(747,462)	(581,700)
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,193,773	2,742,289
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 86,173,539	$ 86,724,961
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts payable	$ 297,972	$ 593,975
Accrued salaries and benefits	123,480	132,602
Unearned revenues	10,973	4,827
FERC relicensing liability	238,393	
Deposits	57,911	55,911
Due to the Federal Energy Regulatory Commission	90,247	90,247
Compensated absences, current portion	227,463	215,712
Total Current Liabilities	1,046,439	1,093,274
Noncurrent Liabilities		
Compensated absences, noncurrent portion	175,126	143,807
Other postemployment benefits	65,152	47,685
Total Noncurrent Liabilities	240,278	191,492
TOTAL LIABILITIES	1,286,717	1,284,766
NET POSITION		
Net investment in capital assets	59,230,494	60,443,538
Unrestricted	25,656,328	24,996,657
TOTAL NET POSITION	84,886,822	85,440,195
TOTAL LIABILITIES AND NET POSITION	$ 86,173,539	$ 86,724,961

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, 2013 and 2012

	2013	2012
Operating Revenues		
Power generation revenues	$ 22,173,349	$ 20,168,215
Headwater benefit fees	327,517	321,165
Total Operating Revenues	22,500,866	20,489,380
Operating Expenses		
Operations	1,392,559	1,262,641
Maintenance	1,623,656	1,208,393
General and administrative	4,452,981	2,754,805
Power generation marketing	1,005,860	898,975
Depreciation and amortization	1,889,625	1,658,328
Total Operating Expenses	10,364,681	7,783,142
NET INCOME FROM OPERATIONS	12,136,185	12,706,238
Nonoperating Revenues (Expenses)		
Beardsley boat launch grant revenue	1,472,435	48,565
Reimbursements	171,560	171,833
Water sales	128,226	97,057
Rental of equipment and facilities	64,797	56,811
Investment earnings	43,659	27,719
Other nonoperating revenue	16,502	24,161
River habitat studies	(1,080,849)	(736,346)
Goodwin Dam expenses	(269,778)	(275,534)
(Loss) gain on disposal of capital assets	(72,110)	12,087
Total Nonoperating Revenues (Expenses)	474,442	(573,647)
CHANGE IN NET POSITION	12,610,627	12,132,591
Net position, beginning of year	85,440,195	85,975,604
Less: distributions to Member Districts	(13,164,000)	(12,668,000)
NET POSITION, END OF YEAR	$ 84,886,822	$ 85,440,195

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

TRI-DAM PROJECT

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	$ 22,384,731	$ 20,592,403
Other operating receipts	327,915	265,273
Cash payments to suppliers for goods and services	(5,558,282)	(4,872,162)
Cash payments to suppliers for relicensing projects	(5,851,288)	(48,565)
Cash payments to employees for services	(1,686,138)	(1,712,778)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,616,938	14,224,171
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Member Districts	(13,164,000)	(12,668,000)
Cash received for relicensing project grants	29,272	48,565
Other net nonoperating revenues and expenses	(702,975)	(931,487)
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES	(13,837,703)	(13,550,922)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(607,959)	(3,360,045)
Proceeds from disposal of capital assets	25,030	12,087
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(582,929)	(3,347,958)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(18,621,045)	(5,876,122)
Proceeds from sales of investment securities	15,345,000	3,630,000
Interest received	66,405	69,334
NET CASH USED FOR INVESING ACTIVITIES	(3,209,640)	(2,176,788)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,013,334)	(4,851,497)
Cash and cash equivalents - beginning of year	16,054,760	20,906,257
CASH AND CASH EQUIVALENTS- END OF YEAR	$ 8,041,426	$ 16,054,760
Reconciliation of net income from operations to net cash provided by operating activities:		
Net income from operations	$ 12,136,185	$ 12,706,238
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,889,625	1,658,328
Changes in operating assets and liabilities:		
Decrease (increase) in FERC relicensing costs	(4,617,246)	
Decrease (increase) in power generation receivable	211,382	424,188
Decrease (increase) in other receivables	(5,748)	(30,164)
Decrease (increase) in prepaid expenses and other assets	789	(11,058)
Increase (decrease) in accounts payable	(296,003)	(539,902)
Increase (decrease) in accrued salaries and benefits	(9,122)	38,583
Increase (decrease) in FERC relicensing liability	238,393	
Increase (decrease) in unearned revenue	6,146	(25,728)
Increase (decrease) in due to FERC		247
Increase (decrease) in compensated absences	43,070	(16,165)
Increase (decrease) in other postemployment benefits	17,467	19,604
Increase (decrease) in deposits	2,000	
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 9,616,938	$ 14,224,171
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Change in the fair value of investments	$ (1,415)	$ 48,156

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 and 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.

<u>Budgetary Principles</u>: 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.

<u>Use of Estimates</u>: 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.

<u>Cash and Cash Equivalents</u>: 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, if any.

<u>Accounts Receivable</u>: 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.

<u>Capital Assets</u>: 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 capital assets with a cost of $5,000 or more except for buildings and improvements where assets with a cost of $10,000 or more are capitalized. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

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 conducting 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 when the license was issued. The Project will amortize these costs over the 40 year term of the new licenses. The Project incurred additional recreation costs of $6,293,246 at Beardsley reservoir from 2009 to 2013 as a condition of obtaining the licenses. A grant for $1,676,000 was received from the State of California to pay for a portion of these recreation costs incurred since 2009, including $1,472,435 and $48,565 recognized as grant revenues and administrative expenses in 2013 and 2012. The remaining recreation costs of $4,617,246 paid for by the Project will be amortized over the remaining term of the licenses. The licenses also require minimum water flows on the Middle Fork of the Stanislaus River that could result in less water available for power generation during dry years.

The unamortized FERC relicensing costs are classified as deferred outflows of resources under GASB Statement No. 63, which is a consumption of net position 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, 2013 and 2012 consisted of miscellaneous receipts for future services.

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 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 position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
>
> Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The purpose of the restriction is reported on the face of the balance sheet.
>
> Unrestricted Net Position – This category represents net position not restricted for any project or other purpose.

Power Generation Revenues: The Project recognized power generation revenues through December 31, 2013 pursuant to the terms and provisions of a five year Master Power Purchase and Sale Agreement (the Agreement) between the Member Districts and SENA 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 provided, generally, that the Districts 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 Powerhouse, Beardsley Powerhouse, and Tulloch Powerhouse. The Agreement provided for a commission to SENA based on the actual value of the energy delivered and certain ancillary services. SENA marketed the power for the benefit of the Project to find the highest and best use of the power generated. Under the agreement, SENA coordinated with Project personnel to adjust operations to maximize the benefit of power generated at Project facilities.

Effective January 1, 2014, the Project entered into a new power purchase and sale agreement with the City of Santa Clara, California through its municipal electric utility, Silicon Valley Power. Under the agreement, the Project agreed to sell the net electrical output and installed capacity of its power generating facilities (the Donnells Powerhouse, Tulloch Powerhouse and Beardsley Powerhouse) to the City through December 31, 2023, including electrical energy, capacity attributes and any renewable energy credits and environmental attributes of the power generating facilities. Under the agreement, the Project will receive a fixed contract price per megawatt hour (MWh) as summarized in Exhibit E of the agreement. The contract price in 2014 will be $63 per MWh. The contract price includes scheduled increases ranging from 2.6% to 4.4% each year from 2015 through 2021 when the price is fixed through the remaining term of the agreement.

Risk Management: The Project is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The commercial insurance is subject to a deductible. In addition, the Project has entered into an agreement with the Association of California Water Agencies Joint Powers Insurance Authority to pool their purchasing needs with other agencies for health, accident, and dental insurance. No significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended December 31, 2013 and 2012. 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 2012 nonoperating revenues were netted against nonoperating expenses during 2012, which were reclassified as nonoperating revenues 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 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 implementation of this Statement had no effect on the Project's financial statements.

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.

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

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

The 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:

	2013	2012
Cash and cash equivalents		
Cash on hand	$ 300	$ 300
Deposits with financial institutions	8,011,985	9,547,887
Money market mutual funds	23,460	6,500,908
Local Agency Investment Fund (LAIF)	5,681	5,665
Total cash and cash equivalents	8,041,426	16,054,760
Investments		
Investments held by Union Bank	7,481,389	4,230,468
Total investments	7,481,389	4,230,468
Total cash and investments	$ 15,522,815	$ 20,285,228

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

	2013	2012
Cash and cash equivalents		
Cash on hand	$ 300	$ 300
Deposits with financial institutions	8,011,985	9,547,887
Total cash and deposits	8,012,285	9,548,187
U.S. agency securities	4,696,241	2,604,714
Commercial paper	1,848,875	943,366
Medium term corporate notes	936,273	682,388
Money market mutual funds	23,460	6,500,908
Local Agency Investment Fund (LAIF)	5,681	5,665
Total investments	7,510,530	10,737,041
Total cash and investments	$ 15,522,815	$ 20,285,228

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. 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, 2013:

		Remaining Maturity		
	Total	12 Months or Less	13-24 Months	24-60 Months
U.S. agency securities	$ 4,696,241	$ 300,237	$ 3,646,471	$ 749,533
Commercial paper	1,848,875	1,848,875		
Medium term corporate notes	936,273	635,985	300,288	
Money market mutual funds	23,460	23,460		
LAIF	5,681	5,681		
Total	$ 7,510,530	$ 2,814,238	$ 3,946,759	$ 749,533

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+	Aa1/AA-	A-1/P-1	Not Rated
U.S. agency securities	$4,696,241	N/A	$4,696,241			
Commercial paper	1,848,875	A1/P1			$1,848,875	
Medium term corporate notes	936,273	A		$ 936,273		
Money market mutual funds	23,460	AAA/Aaa	23,460			
LAIF	5,681	N/A				$ 5,681
	$7,510,530		$4,719,701	$ 936,273	$1,848,875	$ 5,681

Concentration of Credit Risk: The investment policy of the Project limits the amount that can be invested in any one issuer to the California Government Code. The California Government Code limits the amount that may be invested in any one issuer, as disclosed in the preceding table. GASB Statement No. 40 requires disclosure of investments with one issuer exceeding 5% of total investments, with the exception of U.S. Treasury obligations, mutual funds and external investment pools. Concentrations of investments exceeding 5% of total investments were as follows at December 31, 2013:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	$ 2,175,367
Federal National Mortgage Association	U.S. Agency Securities	1,996,756
Federal Home Loan Bank	U.S. Agency Securities	524,118

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, 2013 and 2012, the carrying amounts of the Project's deposits were $8,011,985 and $9,547,887 and the balances in financial institutions were $8,114,832 and $9,617,997, respectively. Of the balances in financial institutions, $250,000 and $356,004 at December 31, 2013 and 2012 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.

NOTE B – CASH AND INVESTMENTS (Continued)

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, 2013 by all public agencies in LAIF is $57,693,747,217 and is managed by the State Treasurer. Of that amount, 97.8% is invested in non-derivative financial products and 2.2% 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, 2013	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2013
Capital assets, not being depreciated:					
Land	$ 196,313				$ 196,313
Construction in progress	201,328	$ 304,063		$ (385,997)	119,394
Total capital assets not being depreciated	397,641	304,063		(385,997)	315,707
Capital assets, being depreciated:					
Dams and power plants	88,158,563	261,168		170,942	88,590,673
Power plant equipment	5,348,179		$ (112,465)		5,235,714
Telemetry equipment	3,039,218		(487,210)	177,340	2,729,348
Buildings	977,153				977,153
Other equipment	2,827,221	42,728	(270,195)	37,715	2,637,469
Total capital assets being depreciated	100,350,334	303,896	(869,870)	385,997	100,170,357
Accumulated depreciation:					
Dams and power plants	(34,585,564)	(1,250,160)			(35,835,724)
Power plant equipment	(1,348,031)	(164,255)	70,788		(1,441,498)
Telemetry equipment	(1,681,962)	(106,918)	444,860		(1,344,020)
Buildings	(659,065)	(23,775)			(682,840)
Other equipment	(2,029,815)	(178,755)	257,082		(1,951,488)
Total accumulated depreciation	(40,304,437)	(1,723,863)	772,730		(41,255,570)
Total capital assets being depreciated, net	60,045,897	(1,419,967)	(97,140)	385,997	58,914,787
Capital assets, net	$60,443,538	$(1,115,904)	$ (97,140)	$ -	$59,230,494

NOTE C – CAPITAL ASSETS (Continued)

	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

Construction in progress included approximately $24 million at January 1, 2012 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, 2013	Additions	Repayments	Balance at December 31, 2013	Due within One Year
Compensated absences	$ 359,519	$ 204,125	$ (161,055)	$ 402,589	$ 227,463
Other postemployment benefits	47,685	35,785	(18,318)	65,152	
	$ 407,204	$ 239,910	$ (179,373)	$ 467,741	$ 227,463

NOTE D – LONG-TERM LIABILITIES (Continued)

	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

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 matured in February 2013.

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:

	2013	2012
Maintenance reserve	$ 1,500,000	
Operating reserve	6,000,000	$ 6,000,000
Insurance reserve		4,700,000
Total commited net position	$ 7,500,000	$ 10,700,000

The maintenance reserve was spent on the third generating unit at Tulloch Reservoir as of December 31, 2012 and is being re-established in the amount of $1,500,000 per year ($750,000 each January and July) beginning during the year ended December 31, 2013. The insurance reserve was used for the recreation improvements that were required by the Project's FERC license at Beardsley Reservoir during 2013 and was terminated once depleted. The operating reserve was established by Board resolution in a prior year.

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:

	2013	2012
Oakdale Irrigation District	$ 6,582,000	$ 6,334,000
South San Joaquin Irrigation District	6,582,000	6,334,000
Total distributions to Member Districts	$ 13,164,000	$ 12,668,000

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's employees hired prior to January 1, 2013 participate in the Miscellaneous 2.5% at 55 Risk Pool and employees hired on or after January 1, 2013 participate in the Miscellaneous 2.0% at 62 Risk Pool due to the implementation of the Public Employee's Pension Reform Act. Copies of the 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 $114,706 and $113,257 for the years ended December 31, 2013 and 2012, respectively. The Project is also required to contribute at an actuarially determined rate: the rate for January 1 to June 30, 2012 was 13.353%, the rate for July 1, 2012 to June 30, 2013 was 13.914%, and the rate from July 1 to December 31, 2013 was 14.66%. 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, 2013, 2012, and 2011 were $385,475, $380,603, and $325,698 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:

	2013	2012
Annual required contribution (ARC)	$ 35,282	$ 38,522
Interest on net OPEB obligation	503	516
Annual OPEB cost (expense)	35,785	39,038
Contributions made	(18,318)	(19,434)
Increase in net OPEB obligation	17,467	19,604
Net OPEB obligation beginning of year	47,685	28,081
Net OPEB obligation (asset) - end of year	$ 65,152	$ 47,685

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, 2011	$ 38,356	50.59%	$ 28,081
December 31, 2012	39,038	49.78%	47,685
December 31, 2013	35,785	51.19%	65,152

Funded Status and Funding Progress: As of December 31, 2013, 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, 2013 and 2012 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 in 2013 include health premium increases of 5.0% to 8.5%, a 4.5% investment rate of return and an 88% to 100% probability of remaining employed until retirement. The actuarial assumptions in 2012 include health premium increases of 5.2% to 8.3%, a 4.0% investment rate of return and a 93% to 100% probability of remaining employed until retirement. The following assumptions were used for both 2013 and 2012: an average retirement age of 60 and an average life expectancy of more than 65 years. The initial UAAL was amortized as a level dollar amount over an open 30-year period as of December 31, 2013 and 2012, 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, 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%
December 31, 2013	-	229,820	229,820	0.00%	1,751,596	13.12%

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.

NOTE I – CONTINGENCIES AND COMMITMENTS (Continued)

Effect of Drought: The Project continues to be negatively impacted by the ongoing severe drought in California. The 2013/2014 water year will likely be one of the worst on record, with average precipitation expected to be approximately one-third of the historical average, according to the California Department of Water Resources. Moreover, the Project's power generation capability is further subject to water conservation efforts by the Member Districts, which may have the effect of minimizing water releases from the Donnells and Beardsley Reservoirs. Through the first quarter of 2014, power generation has been reduced significantly, and the Project will likely continue to generate electricity at levels well below its historical average until conditions improve.

Also as a result of the drought, expenses for 2014 have been budgeted under a worst case scenario, with no increases in staff and minimal capital expenditures. Management has analyzed the impact of deferring certain capital projects into 2015 or beyond, with only those projects deemed immediately necessary to be implemented in 2014. Power generation has been budgeted at only 277,000 MWh, which translates into only $17.6 million in revenue. Nonetheless, the Project still anticipates being able to meet all of its current obligations and remain marginally profitable. The Project does not anticipate withdrawing funds from existing reserves to meet operating costs.

The Project does not have any contractual obligation to deliver any minimum amount of electricity under the new power sale agreement with the City of Santa Clara, or any other contractual obligations that require minimum deliveries of electricity or water that could be impacted by the drought.

Although recent rains and snowfall have improved conditions somewhat, it is impossible to predict whether adequate rain and snowfall will occur in the 2014/2015 water year to replenish the Project's reservoirs and return to historically normal levels of power generation.

OTHER SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT

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

December 31, 2013 and 2012

	2013	2012
Donnells Facility:		
Operations		
Supervision wages and benefits	$ 26,123	$ 21,936
Hydraulic wages and benefits	11,280	8,610
Electric wages and benefits	235,493	204,930
PG&E Islanding wages and benefits	5,596	
Other wages and benefits	18,449	30,152
Supplies and materials	4,741	7,724
Total Operations	301,682	273,352
Maintenance		
Supervision wages and benefits	2,378	14,812
Structures wages and benefits	29,446	2,055
Reservoirs and dams wages and benefits	32,717	13,223
Electrical plant wages and benefits	67,902	54,649
Other wages and benefits	1,294	8,114
High voltage wages and benefits	3,901	
Communications and security wages and benefits	15,770	10,767
Supplies and materials	37,464	27,027
Total Maintenance	190,872	130,647
Power generation marketing	567,299	483,451
Total Donnells Facility	1,059,853	887,450
Beardsley Facility:		
Operations		
Supervision wages and benefits	25,993	20,133
Hydraulic wages and benefits	22,056	19,209
Electric wages and benefits	187,173	176,889
Other wages and benefits	20,942	21,914
Supplies and materials	3,822	6,206
Total Operations	259,986	244,351
Maintenance		
Supervision wages and benefits	124,211	114,958
Structures wages and benefits	27,467	25,658
Reservoirs and dams wages and benefits	24,645	17,786
Electrical plant wages and benefits	40,567	68,846
Other wages and benefits	3,890	7,874
Communications and security wages and benefits	15,062	8,854
Supplies and materials	32,893	26,510
Total Maintenance	268,735	270,486

TRI-DAM PROJECT

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

December 31, 2013 and 2012

	2013	2012
General and Administrative		
USFS resource management support	$ 105,327	$ 120,354
Total General & Administrative	105,327	120,354
Power generation marketing	105,834	98,055
Total Beardsley Facility	739,882	733,246
Tulloch Facility:		
Operations		
Supervision wages and benefits	126,050	95,467
Hydraulic wages and benefits	36,732	43,287
Electric wages and benefits	276,380	285,229
Other wages and benefits	34,399	13,925
Supplies and materials	8,194	13,231
Total Operations	481,755	451,139
Maintenance		
Supervision wages and benefits	69,444	120,545
Structures wages and benefits	56,230	41,734
Reservoirs and dams wages and benefits	79,328	22,625
Electrical plant wages and benefits	142,538	177,644
Other wages and benefits	27,543	4,755
High voltage wages and benefits	9,010	4,162
Communications and security wages and benefits	17,118	32,663
Supplies and materials	483,740	70,316
Total Maintenance	884,951	474,444
General and Administrative		
Supplies and materials	3,386	10,855
Headwater benefit assessment	90,247	90,494
Other	3,986	3,846
Total General and Administrative	97,619	105,195
Power generation marketing	332,727	317,469
Total Tulloch Facility	1,797,052	1,348,247
Mt Elizabeth Facility:		
Operations		
Supplies and materials	12,905	12,314
Maintenance		
Structures wages and benefits	448	381
Other wages and benefits	1,591	3,229
Communications and security wages and benefits	1,130	2,816
Supplies and materials	1,039	8,204
Total Maintenance	4,208	14,630
Total Mt. Elizabeth Facility	17,113	26,944

TRI-DAM PROJECT

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

December 31, 2013 and 2012

Strawberry Peak Facility:		
Operations		
Supplies and materials	$ 7,730	$ 7,059
Maintenance		
Other wages and benefits	698	4,411
Communications and security wages and benefits	4,215	8,590
Supplies and materials	2,615	11,157
Total Maintenance	7,795	24,158
Total Strawberry Peak	15,525	31,217
Operations Center:		
Operations		
Supervision wages and benefits	21,971	20,131
Electric wages and benefits	151,873	99,621
Supplies and materials	5,603	5,116
Total Operations	179,447	124,868
Maintenance		
Structures wages and benefits	3,435	1,937
Other wages and benefits	550	8,566
Communications and security wages and benefits	30,997	23,222
Supplies and materials	8,030	3,427
Total Maintenance	43,012	37,152
Total Operations Center	222,459	162,020
Service Center Facilities:		
Operations		
Hydraulic wages and benefits	555	
Total Operations	555	
Maintenance		
Structures wages and benefits	3,398	7,351
Other wages and benefits	1,122	
Supplies and materials	195,977	237,527
Total Maintenance	200,497	244,878
Total Service Center	201,052	244,878
Division Point Facility:		
Operations		
Supervision wages and benefits	21,968	20,131
Hyrdraulic wages and benefits	21,200	27,558
Electric wages and benefits	102,621	98,909
Supplies and materials	2,710	2,960
Total Operations	148,499	149,558

TRI-DAM PROJECT

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

December 31, 2013 and 2012

	2013	2012
Maintenance		
Structures wages and benefits	$ 388	$ 1,895
Reservoirs and dams wages and benefits	1,237	3,302
Other wages and benefits	797	1,161
Communications and security wages and benefits	11,164	4,392
Supplies and materials	8,947	1,248
Total Maintenance	23,586	11,998
Total Division Point	172,085	161,556
Total Operations and Maintenance	3,016,215	2,471,034
Overall General and Administrative:		
Outside services	2,450,964	716,340
Administrative wages and benefits	654,822	640,776
Property insurance	438,619	444,726
FERC license fees	196,451	271,854
Safety fees and expense	135,251	114,769
Other wages and benefits-mobile equip. operation	71,389	55,953
Streamgaging	63,277	66,181
Miscellaneous	62,959	(8,172)
Utilities	34,692	39,172
Meals allowance and travel expense	40,902	35,056
Telephone, internet, data links	43,903	17,421
Office supplies and expense	25,963	41,440
Computer supplies	11,861	21,082
County taxes	10,043	65,793
Professional organizations	8,939	6,865
Total Overall General and Administrative	4,250,035	2,529,256
Total General and Administrative	4,452,981	2,754,805
Total Power Generation Marketing	1,005,860	898,975
Depreciation and Amortization		
Depreciation on capital assets	1,723,863	1,575,228
FERC relicensing amortization	165,762	83,100
Total Depreciation and Amortization	1,889,625	1,658,328
TOTAL OPERATING EXPENSES	$ 10,364,681	$ 7,783,142
SUMMARY OF OPERATING EXPENSES BY TYPE		
Operations	$ 1,392,559	$ 1,262,641
Maintenance	1,623,656	1,208,393
General and administrative	4,452,981	2,754,805
Power generation marketing	1,005,860	898,975
Depreciation and amortization	1,889,625	1,658,328
TOTAL OPERATING EXPENSES	$ 10,364,681	$ 7,783,142

COMPLIANCE REPORT

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

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

We have audited, in accordance with 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, 2013, 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 14, 2014.

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*.

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 14, 2014