TRI-DAM POWER AUTHORITY

AUDITED FINANCIAL STATEMENTS

December 31, 2012

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AUDITED FINANCIAL STATEMENTS

December 31, 2012 and 2011

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Richardson & Company

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Tri-Dam Power Authority
Strawberry, California

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-Dam Power Authority (the Authority), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2012 and 2011 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's and state regulations governing special districts.

To the Commissioners
Tri-Dam Power Authority

Report on Supplemental Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Richardson & Company

April 15, 2013

MANAGEMENT'S DISCUSSION
AND ANALYSIS

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

This discussion and analysis provides an overview of the Tri-Dam Power Authority's (Authority) financial position as of December 31, 2012 and 2011, and the Authority's financial performance for the years then ended. Condensed financial information for 2010 is also presented for comparison purposes. We encourage readers to consider the information presented here in conjunction with the more comprehensive financial statements, the notes to those 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, increased by $700,000, from $18.1 million at December 31, 2011, to $18.8 million at December 31, 2012. The increase reflects positive results of operations, net of distributions to the Oakdale Irrigation District and South San Joaquin Irrigation District (Member Districts).
- Year-end total net position of $18.8 million was broken down between $14.8 million invested in capital assets (net of related debt of $12.1 million), $1.6 million restricted for debt service, and $2.4 million designated as unrestricted.
- At year-end, for every dollar in liabilities, the Authority held $2.53 in assets, up from $2.23 in 2011, also due to the Authority's positive results of operations.
- Operating revenues decreased from $7.8 million during 2011 to $4.4 million during 2012, reflecting lower energy generation revenue.
- Operating expenses decreased from $1.3 million during 2011 to $1.2 million during 2012. The decline was primarily due to lower depreciation expense. Excluding the decrease in depreciation, operating expenses increased by $36,000.
- Nonoperating expenses decreased from $550,000 during 2011 to $499,000 during 2012. The decline was due to lower interest expense, as a portion of outstanding debt was retired.

FINANCIAL ANALYSIS OF THE AUTHORITY

This discussion and analysis is intended to serve as an introduction to the Authority's Basic Financial Statements and Compliance Report. The financial data contained herein reflects the audited 2012 and 2011 financial results.

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

The Balance Sheet details the changes in net position due to increases and decreases in assets, deferred outflows, 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 Power Authority should always be analyzed in combination with the level and trend of distributions to the Member Districts.

The Statement of Revenues, Expenses, and Changes in Net Position provide information relating to the revenues, expenses, and subsequent changes in net position for the fiscal year reported. The change in net position is similar to net income / (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 Authority'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.

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

BALANCE SHEET

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

Condensed Balance Sheets

	2012	2011	Increase (Decrease)	2010	Increase (Decrease)
Assets					
Current Assets	$ 2,382,796	$ 3,826,864	$ (1,444,068)	$ 1,552,280	$ 2,274,584
Restricted Assets	1,641,496	1,645,687	(4,191)	1,645,071	616
Capital Assets, Net	26,846,687	27,114,990	(268,303)	27,699,807	(584,817)
Deferred charges	242,629	304,573	(61,944)	366,517	(61,944)
Total Assets and Deferred Outflows	$ 31,113,608	$ 32,892,114	$ (1,778,506)	$ 31,263,675	$ 1,628,439
Liabilities					
Current and Other Liabilities	$ 2,580,173	$ 2,601,351	$ (21,178)	$ 2,562,415	$ 38,936
Long-Term Liabilities	9,694,223	12,155,710	(2,461,487)	14,550,307	(2,394,597)
Total Liabilities	12,274,396	14,757,061	(2,482,665)	17,112,722	(2,355,661)
Net Position					
Net Investment in Capital Assets	14,769,794	12,632,517	2,137,277	10,911,746	1,720,771
Restricted for Debt Service	1,641,496	1,645,687	(4,191)	1,645,071	616
Unrestricted	2,427,922	3,856,849	(1,428,927)	1,594,136	2,262,713
Total Net Position	18,839,212	18,135,053	704,159	14,150,953	3,984,100
Total Liabilities and Net Position	$ 31,113,608	$ 32,892,114	$ (1,778,506)	$ 31,263,675	$ 1,628,439

Assets and Deferred Outflows
2012 compared to 2011 Current assets, including restricted current assets, represent the Authority's cash and cash equivalents, and are comprised of approximately $942,000 in deposits with financial institutions, and $2.6 million held in money market funds and the State of California Local Agency Investment Fund (less than 1 percent). Current assets declined by $1.4 million during 2012, primarily due to lower net income due to lower power generation revenue. Current assets also include $430,000 due to the Authority for power sales to Pacific Gas and Electric in the normal course of business. The Authority's restricted current assets totaled $1.6 million as of year-end and represent funds held by the trustee on behalf of the holders of the Authority's outstanding bonds.

Capital assets, net of depreciation, declined by $268,000 during the year. Asset additions of $220,000 were more than offset by normal depreciation expense of $488,000.

Total assets declined by $1.8 million during 2012 from $32.9 million to $31.1 million. The decline in total assets was due to member distributions of $2.0 million, net of the Authority's results of operations and cash inflows and outflows.

2011 compared to 2010 The cash and cash equivalents balance is comprised of approximately $94,000 in bank deposits and $5.0 million in investments. The $5.0 million in investments is mainly held in money market funds and medium term corporate notes, with less than 1 percent held in the Local Agency Investment Fund.

Capital assets, net of depreciation, decreased $585,000 during 2011, due to normal deprecation, net of a small addition from a transformer replacement project.

Liabilities

2012 compared to 2011 The Authority ended 2012 with total liabilities of $12.3 million, a decline of $2.5 million from the prior year. Liabilities generally consist of current accounts payable to various vendors and suppliers during the normal course of business, and outstanding debt in the form of the Authority's 2010 Revenue Refunding Bonds. During 2012, the Authority paid down outstanding debt of approximately $2.3 million.

2011 compared to 2010 Total Liabilities decreased $2.4 million in 2011, primarily due to principal payments made on the 2010 Revenue Refunding Bonds.

Net Position

2012 compared to 2011 Total assets and deferred outflows exceeded liabilities by $18.8 million at December 31, 2012, an increase of $700,000 from year-end 2011. The Authority remained profitable during 2012, with net earnings of $2.7 million; however, 2012 net earnings were down substantially from 2011, while discretionary cash distributions to Member Districts remained constant at $2.0 million. Accordingly, the Authority's increase in net position was limited to $700,000, or $3.3 million lower than the increase experienced during 2011. Although a separate legal entity, the Authority is not a private company, and as such is not operated to only make a profit. Nonetheless, the Authority 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 Authority to help fulfill their obligations to recover the cost of providing services to their constituents and maintain and improve their capital facilities.

The Authority's net position (total assets and deferred outflows less total liabilities) at the end of 2012 included the net investment in capital assets of $14.8 million, net position restricted for debt service of $1.6 million, and unrestricted net position of $2.4 million. The net investment in capital assets represents the Authority's investment in hydroelectric production facilities, a water conveyance tunnel, roads, bridges, and other equipment, the cost of which is recognized over the useful lives of these assets through depreciation expense. Capital assets provide the Authority with the ability to continue operations and do not represent liquid assets that can easily be used to pay future obligations. See the capital assets section in the notes to the financial statements for more information on the changes in this component of net position.

Unrestricted net position decreased due to distributions to Member Districts of $2.0 million, and the pay down of $2.3 million in debt which increased the investment in capital assets by a corresponding amount. Unrestricted net position is comprised of cash and cash equivalents (short term financial assets), along with accounts receivable.

The Authority maintains a debt service reserve that is required under the 2010 Revenue Refunding bond agreement, with the current minimum balance at $1.6 million. In addition, the Authority's Board of Commissioners has imposed minimum reserve balances, which can be changed at the Board's discretion. These limits are in place to ensure adequate reserve balances exist in the event of a system failure or to fund future projects.

2011 compared to 2010 The two largest components of the Authority's net position were invested in capital assets of $12.6 million and unrestricted net position of $3.9 million. The net investment in capital assets represents the Authority's investment in capital assets that will be eliminated with depreciation. The Authority utilizes capital assets for day-to-day operations and energy generation. Capital assets provide the Authority with the ability to continue operations and do not represent liquid assets that could be used to pay future obligations. See the capital assets section for more information on the changes in this component of net position. Unrestricted net position increased due to the change in net position discussed below, less distributions to the Member Districts.

The Authority maintains a debt service reserve that is required under the Revenue Refunding Bond agreement with a current minimum balance of $1.6 million. In addition, the Authority's Board of Commissioners has imposed minimum reserve balances, which can be changed at the Board's discretion. These limits are in place to ensure adequate reserve balances exist in the event of a system failure or to fund future projects.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

	Condensed Statement of Revenues, Expenses and Changes in Net Position				
	2012	2011	Increase (Decrease)	2010	Increase (Decrease)
Operating Revenues	$ 4,411,703	$ 7,800,444	$ (3,388,741)	$ 5,957,632	$ 1,842,812
Operating Expenses	1,212,895	1,291,858	(78,963)	1,547,910	(256,052)
Net Profit from Operations	3,198,808	6,508,586	(3,309,778)	4,409,722	2,098,864
Nonoperating Revenues	4,796	25,307	(20,511)	49,439	(24,132)
Nonoperating Expenses	(499,445)	(549,793)	50,348	(965,546)	415,753
Total Nonoperating Revenues (Expenses)	(494,649)	(524,486)	29,837	(916,107)	391,621
Change in Net Position	2,704,159	5,984,100	(3,279,941)	3,493,615	2,490,485
Net Position, Beginning of Year	18,135,053	14,150,953	3,984,100	12,357,338	1,793,615
Less: Distributions to Districts	(2,000,000)	(2,000,000)	--	(1,700,000)	(300,000)
Net Position, End of Year	$ 18,839,212	$ 18,135,053	$ 704,159	$ 14,150,953	$ 3,984,100

Revenues
2012 compared to 2011 Total revenues declined $3.4 million from $7.8 million in 2011 to $4.4 million in 2012. The Authority's primary revenue source remains the sale of wholesale electricity generated by its Sand Bar hydroelectric plant. The Authority sells 100 percent of its power directly to PG&E under a standard offer contract for qualifying facilities that runs through May 2016. The revenue includes payment for capacity and energy calculated by the short run avoided cost tariff. The decrease in total power generation revenue was due to historically low rain and snowfall totals, which reduced power generation by approximately 75,000 MWh versus the prior year. In addition, power prices remained relatively depressed throughout 2012.

Nonoperating revenues remained minimal during 2012, declining from $25,000 during 2011 to $5,000 during 2012. Nonoperating revenues consist of investment earnings and sales of surplus assets.

2011 compared to 2010 Total revenues increased $1.8 million in 2011 primarily due to a significant increase in power generation revenue, which increased approximately $1.9 million. Investment earnings were minimal due to market conditions, and decreased by $41,000 to $8,800.

Expenses
2012 compared to 2011 Operating expenses decreased $79,000 from $1.3 million during 2011, to $1.2 million during 2012. The decrease was due to a reduction of $115,000 in depreciation expense, as a substantial number of the Authority's assets reached the end of their estimated useful lives and were therefore fully depreciated. Other operating expenses increased $36,000 from 2011, primarily due to increased labor and overhead expense resulting from annual maintenance and capital improvement projects completed during the year. Although the Authority does not have its own employees, labor costs are allocated for employees on loan from the Authority's related entity, Tri-Dam Project. The Authority reimburses Tri-Dam Project for all allocated labor costs throughout the year.

Nonoperating expenses of the Authority consist of the interest expense incurred on the 2010 Revenue Refunding bonds still outstanding. During 2012, the Authority retired $2.3 million of refunding bonds, resulting in future interest expense savings of $51,000 a year. The remaining 2010 Revenue Refunding bonds are scheduled to mature and will be retired over the course the next four years, with the final maturity in November 2016.

2011 compared to 2010 The Authority's operating expenses decreased a total of $256,000 in 2011. This decrease was primarily due to lower wages and overhead expense resulting from a lack of capital improvement projects and reduction in required maintenance at the Sand Bar power generation plant.

Changes in Net Position

2012 compared to 2011 The change in net position (net income) decreased $3.3 million, or 55 percent in 2012 versus 2011. A well-below average rain and snowfall year significantly curtailed power generation at the Authority's Sand Bar power plant relative to historical levels. Total generation was only approximately 72 percent of historical levels, and only approximately 42 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. Member distributions for 2012 remained the same as during 2011 at $2.0 million.

2011 compared to 2010 The change in net position (net income) increased $2.5 million, or 71 percent, in 2011. Significantly improved power generation revenue due to above normal precipitation was the primary reason for the increase. In addition, total expenses decreased by $672,000, or 27 percent. The reduction in total expenses resulted from the lower operating expenses discussed above, along with a reduction in interest expense of $416,000 due to lower interest costs associated with the 2010 debt refinancing and subsequent principal pay down. Additional interest expense savings are anticipated in future years as outstanding debt continues to be retired.

CAPITAL ASSETS

	2012	2011	Increase (Decrease)
Construction in progress	$ -	$ -	$ -
Hydroelectric production facilities	18,847,373	18,627,206	220,167
Conveyance tunnel	22,123,528	22,123,528	-
Roads and bridges	1,510,573	1,510,573	-
Other equipment	2,425,816	2,425,816	-
Total Capital Assets	44,907,290	44,687,123	220,167
Less: accumulated depreciation	(18,060,603)	(17,572,133)	(488,470)
Net Capital Assets	$ 26,846,687	$ 27,114,990	$ (268,303)

At the close of 2012, the Authority's investment in capital assets (net of accumulated depreciation) decreased $268,000 due to normal depreciation of $488,000, net of a $220,000 addition to capital assets for a relay replacement project. Note C to the financial statements contains additional information regarding the Authority's capital assets.

ECONOMIC FACTORS AND THE FUTURE

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

Expenses for 2013 are budgeted to increase moderately due to wage and overhead increases and a small capital improvement project.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

TRI-DAM POWER AUTHORITY

BALANCE SHEETS

December 31, 2012 and 2011

	2012	2011
ASSETS AND DEFERRED OUTFLOWS		
ASSETS		
Unrestricted Current Assets		
Cash and cash equivalents	$ 1,900,718	$ 3,449,031
Prepaid expenses	52,459	46,494
Accrued interest receivable	15	160
Accounts receivable, power generation	429,604	331,179
Total Unrestricted Current Assets	2,382,796	3,826,864
Restricted Current Assets		
Cash and cash equivalents with fiscal agent	1,641,496	1,340,363
Investments with fiscal agent		305,324
Total Restricted Current Assets	1,641,496	1,645,687
Total Current Assets	4,024,292	5,472,551
Capital Assets		
Depreciated, net	26,846,687	27,114,990
TOTAL ASSETS	30,870,979	32,587,541
DEFERRED OUTFLOWS		
Deferred charges	242,629	304,573
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 31,113,608	$ 32,892,114
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts payable	$ 1,483	$ 8,155
Accrued interest payable	78,800	87,335
Accounts payable, Tri-Dam Project	81,946	143,987
Long-term debt, current portion	2,400,000	2,340,000
Compensated absences, current portion	17,944	21,874
Total Current Liabilities	2,580,173	2,601,351
Noncurrent Liabilities		
Long-term debt, noncurrent portion	9,676,893	12,142,473
Compensated absences, noncurrent portion	11,963	10,445
Other postemployment benefits	5,367	2,792
Total Noncurrent Liabilities	9,694,223	12,155,710
TOTAL LIABILITIES	12,274,396	14,757,061
NET POSITION		
Net investment in capital assets	14,769,794	12,632,517
Restricted for debt service	1,641,496	1,645,687
Unrestricted	2,427,922	3,856,849
TOTAL NET POSITION	18,839,212	18,135,053
TOTAL LIABILITIES AND NET POSITION	$ 31,113,608	$ 32,892,114

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

TRI-DAM POWER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Power generation revenues	$ 4,411,657	$ 7,800,309
Other revenue	46	135
Total Operating Revenues	4,411,703	7,800,444
Operating Expenses		
Operations	263,574	275,201
Maintenance	171,173	151,782
General and administrative	289,678	261,284
Depreciation	488,470	603,591
Total Operating Expenses	1,212,895	1,291,858
NET INCOME FROM OPERATIONS	3,198,808	6,508,586
Nonoperating Revenues (Expenses)		
Investment earnings	4,796	8,807
Interest expense	(499,445)	(549,793)
Gain on disposal of capital assets		16,500
Total Nonoperating Revenues (Expenses)	(494,649)	(524,486)
CHANGE IN NET POSITION	2,704,159	5,984,100
Net position, beginning of year	18,135,053	14,150,953
Less: distributions to Member Districts	(2,000,000)	(2,000,000)
NET POSITION, END OF YEAR	$ 18,839,212	$ 18,135,053

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

TRI-DAM POWER AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	$ 4,313,232	$ 7,949,224
Other operating receipts	46	135
Cash payments to suppliers for goods & services	(537,029)	(455,678)
Cash payments to employees for services	(261,911)	(234,426)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,514,338	7,259,255
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Member Districts	(2,000,000)	(2,000,000)
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES	(2,000,000)	(2,000,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(511,616)	(610,018)
Principal paid on long-term debt	(2,340,000)	(2,240,000)
Purchases of capital assets	(220,167)	(18,774)
Procees from disposal of capital assets		16,500
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(3,071,783)	(2,852,292)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investment securities	300,000	300,000
Interest received	10,265	18,170
NET CASH PROVIDED BY INVESTING ACTIVITIES	310,265	318,170
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,247,180)	2,725,133
Cash and cash equivalents - beginning of year	4,789,394	2,064,261
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,542,214	$ 4,789,394
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Unrestricted cash and cash equivalents	$ 1,900,718	$ 3,449,031
Restricted cash and cash equivalents with fiscal agent	1,641,496	1,340,363
CASH AND CASH EQUIVALENTS	$ 3,542,214	$ 4,789,394

(Continued)

TRI-DAM POWER AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2012 and 2011

	2012	2011
Reconcilation of net income from operations to net cash provided by operating activities:		
Net income from operations	$ 3,198,808	$ 6,508,586
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	488,470	603,591
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses	(5,965)	(8,345)
Decrease (increase) in accounts receivable, power generation	(98,425)	148,915
Increase (decrease) in accounts payable	(6,672)	(60,323)
Increase (decrease) in accounts payable to Tri-Dam Project	(62,041)	48,117
Increase (decrease) in compensated absences	(2,412)	16,273
Increase (decrease) in postemployment benefits	2,575	2,441
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,514,338	$ 7,259,255
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Change in the fair value of investments	$ 2,795	$ (2,795)

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 Power Authority (the Authority) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority is accounted for as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. In addition, the Authority follows Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

Reporting Entity: The Authority was formed as a separate entity under a Joint Exercise of Powers Agreement dated October 14, 1982 between the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts). The agreement will remain in effect until January 1, 2034 or until the Authority's debt, including interest thereon, is repaid unless extended by both parties. The Authority is governed by all five elected directors of the Oakdale Irrigation District and by all five elected directors of the South San Joaquin Irrigation District; all members of the Board of Commissioners are also members of the Joint Board of Directors of the Tri-Dam Project. In 1984, the Authority issued Revenue Bonds to provide financing to acquire and construct one hydraulic turbine and generator to be installed in the vicinity of the Sand Bar Flat Diversion Dam, together with a related diversion facility, conveyance tunnel, transmission line, and necessary access roads, bridges, land, and necessary improvements. The purpose of the Authority is to account for the activities related to the facilities above, as financed by the long-term debt described in the long-term liability footnote.

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

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

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

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

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

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

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

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

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

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

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

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

Capital Assets: Capital assets are recorded at historical cost. Historical cost includes interest expense on debt capitalized during construction, if significant. Contributed assets are valued at estimated fair value on the date received. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is calculated using the straight line method over the following estimated useful lives:

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

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

Bonds Payable, Bond Premiums and Deferred Charges: Long-term debt is reported as long-term liabilities in the balance sheet. Bond premiums and issuance costs are deferred and amortized into interest expense over the life of the bonds using the straight-line method, which approximates the interest method. Bonds payable are reported on the statement of net position net of the applicable bond premiums. Bond issuance costs are reported as deferred charges on the statement of net position, which is a component of noncurrent assets. Deferred charges will be recognized as an expense in the period incurred when GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is implemented during the year ended June 30, 2013. The Authority's deferred charges will be eliminated from the balance sheet when this Statement is implemented.

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

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

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

Power Generation Revenues: Power revenues are recognized pursuant to the terms and provisions of a Power Purchase Agreement with PG&E referred to as PG&E Standard Offer Number 4, dated June 14, 1994 (Agreement). Under the Agreement, which expires May 31, 2016, PG&E is to make monthly payments to the Tri-Dam Power Authority for energy and capacity delivered to PG&E during on-peak, partial-peak, and off-peak periods. The Authority is to be paid for energy deliveries at prices equal to PG&E's full short-run avoided operating costs (SRAC) under the agreement, which are California Public Utility Commission-approved costs forming the basis of PG&E's published energy prices.

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

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

Risk Management: The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The commercial insurance is subject to a deductible. In addition, the Project has entered into an agreement with the Association of California Water Agencies Joint Power Insurance Authority to pool their purchasing needs with other agencies for health, accident, and dental insurance. No

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

significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended December 31, 2012 and 2011. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from the prior year.

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

Reclassifications: Certain reclassifications were made to conform to the current presentation. These reclassifications had no effect on the previously reported assets, liabilities, net position and change in net position other than the reclassification of deferred charges to deferred outflows due to the implementation of GASB Statement No. 63 as discussed below.

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

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement reclassifies deferred amounts upon refunding of debt as deferred inflows or outflows and requires debt issuance costs to be expensed as incurred, which will affect the accounting for these items related to the Authority's debt agreement. The provisions of this Statement are effective for periods beginning after December 15, 2012.

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement Requires governments providing defined benefit pensions 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 Authority's financial statements and is effective for the Authority's December 31, 2015 financial statements.

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

NOTE B – CASH AND INVESTMENTS

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

	2012	2011
Deposits with financial institutions	$ 941,787	$ 93,551
Local Agency Investment Fund (LAIF)	1,475	1,469
Money market mutual funds	957,456	3,354,011
Total unrestricted cash and cash equivalents	1,900,718	3,449,031
Money market mutual funds	1,641,496	1,340,363
Total restricted cash and cash equivalents with fiscal agent	1,641,496	1,340,363
Medium term corporate notes		305,324
Total restricted investments with fiscal agent		305,324
Total cash and investments	$ 3,542,214	$ 5,094,718

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

	2012	2011
Deposits with financial institutions	$ 941,787	$ 93,551
Total cash and deposits	941,787	93,551
Medium-term corporate notes		305,324
Money market mutual funds	2,598,952	4,694,374
Local Agency Investment Fund (LAIF)	1,475	1,469
Total investments	2,600,427	5,001,167
Total cash and investments	$ 3,542,214	$ 5,094,718

Investment policy: California statutes authorize governments to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized by the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

NOTE B – CASH AND INVESTMENTS (Continued)

The Authority's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
Local agency bonds	5 years	None	None
U.S. Treasury obligations	5 years	None	None
U.S. agency securities	5 years	None	None
California local agency debt	5 years	None	None
Bankers acceptances	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposits	5 years	30%	None
Repurchase agreements	1 year	20%	None
Medium term corporate notes	5 years	30%	None
Money market mutual funds	N/A	20%	10%
LAIF	N/A	None	None

The Authority complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The Authority will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

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

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

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so

NOTE B – CASH AND INVESTMENTS (Continued)

that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Authority's investment policy does not contain any provisions limiting interest rate risk that are more restrictive than what is specified in the California Government Code.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by the bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity at December 31, 2012:

	Total	Remaining Maturity 12 Months or Less
Money market mutual funds	$ 957,456	$ 957,456
LAIF	1,475	1,475
Held by bond trustee:		
Money market mutual funds	1,641,496	1,641,496
Total	$ 2,600,427	$ 2,600,427

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

	Total	Minimum Legal Rating	Ratings as of Year End AAA	Not Rated
Money market mutual funds	$ 957,456	AAA/Aaa	$ 957,456	
LAIF	1,475	N/A		$ 1,475
Held by bond trustee:				
Money market mutual funds	1,641,496	AAA/Aaa	1,641,496	
	$ 2,600,427		$ 2,598,952	$ 1,475

Concentration of Credit Risk: The investment policy of the Authority limits the amount that can be invested in any one issuer to the amounts specified by the California Government Code. The California Government Code limits the amount that may be invested in any one issuer, as disclosed in the preceding table. GASB Statement No. 40 requires disclosure of investments with one issuer exceeding 5% of total investments, with the exception of U.S. Treasury obligations, U.S. Agency Securities and external investment pools. There are no investments in any one issuer (other than mutual funds) that represent 5% or more of total Authority investments.

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

NOTE B – CASH AND INVESTMENTS (Continued)

Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At December 31, 2012 and 2011, the carrying amount of the Authority's deposits were $941,787 and $93,551 and the balances in financial institutions were $971,124 and $99,014, respectively. Of the balance in financial institutions at December 31, 2012, $250,000 was covered by federal depository insurance and $721,124 was secured by a pledge of securities by the financial institution, but not in the name of the Authority. All of the balance in financial institutions was covered by federal depository insurance at December 31, 2011.

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total amount invested on December 31, 2012 by all public agencies in LAIF is $63,285,169,902 managed by the State Treasurer. Of that amount, 98.1% is invested in non-derivative financial products and 1.9% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE C – CAPITAL ASSETS

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

	Balance at January 1, 2012	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2012
Capital assets, not being depreciated:					
Construction in Progress		$ 220,167		$ (220,167)	
Total capital assets, not being depreciated		220,167		(220,167)	
Capital assets, being depreciated:					
Hydroelectric production facilities	$ 18,627,206			220,167	$ 18,847,373
Conveyance tunnel	22,123,528				22,123,528
Roads and bridges	1,510,573				1,510,573
Other equipment	2,425,816				2,425,816
Total capital assets being depreciated, net	44,687,123			220,167	44,907,290
Accumulated depreciation:					
Hydroelectric production facilities	(9,335,057)	(212,906)			(9,547,963)
Conveyance tunnel	(5,638,960)	(221,236)			(5,860,196)
Roads and bridges	(385,146)	(16,313)			(401,459)
Other equipment	(2,212,970)	(38,015)			(2,250,985)
Total accumulated depreciation	(17,572,133)	(488,470)			(18,060,603)
Capital assets depreciated, net	27,114,990	(488,470)		220,167	26,846,687
Capital assets, net	$ 27,114,990	$ (268,303)	$ -	$ -	$ 26,846,687

NOTE C – CAPITAL ASSETS (Continued)

	Balance at January 1, 2011	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2011
Capital assets, not being depreciated:					
Construction in Progress	$ 607,990	$ 18,774		$(626,764)	
Total capital assets, not being depreciated	607,990	18,774		(626,764)	
Capital assets, being depreciated:					
Hydroelectric production facilities	$18,000,442			626,764	$18,627,206
Conveyance tunnel	22,123,528				22,123,528
Roads and bridges	1,510,573				1,510,573
Other equipment	2,425,816				2,425,816
Total capital assets being depreciated, net	44,060,359			626,764	44,687,123
Accumulated depreciation:					
Hydroelectric production facilities	(9,038,031)	(297,026)			(9,335,057)
Conveyance tunnel	(5,417,725)	(221,235)			(5,638,960)
Roads and bridges	(368,832)	(16,314)			(385,146)
Other equipment	(2,143,954)	(69,016)			(2,212,970)
Total accumulated depreciation	(16,968,542)	(603,591)			(17,572,133)
Capital assets depreciated, net	27,091,817	(603,591)		626,764	27,114,990
Capital assets, net	$27,699,807	$ (584,817)	$ -	$ -	$27,114,990

NOTE D – LONG-TERM LIABILITIES

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

	Balance at January 1, 2012	Additions	Repayments	Balance at December 31, 2012	Due within One Year
2011 Revenue Refunding Bonds	$14,160,000		$(2,340,000)	$11,820,000	$ 2,400,000
Compensated absences	32,319	$ 23,502	(25,914)	29,907	17,944
Other postemployment benefits	2,792	5,476	(2,901)	5,367	
Total long-term liabilities	14,195,111	$ 28,978	$(2,368,815)	11,855,274	$ 2,417,944
Unamortized bond premium	322,473			256,893	
Less: Current portion	(2,361,874)			(2,417,944)	
	$12,155,710			$ 9,694,223	

NOTE D – LONG-TERM LIABILITIES (Continued)

	Balance at January 1, 2011	Additions	Repayments	Balance at December 31, 2011	Due within One Year
2010 Revenue Refunding Bonds	$16,400,000		$(2,240,000)	$14,160,000	$ 2,340,000
Compensated absences	16,046	$ 35,708	(19,435)	32,319	21,874
Other postemployment benefits		2,792		2,792	
Total long-term liabilities	16,416,046	$ 38,500	$(2,259,435)	14,195,111	$ 2,361,874
Unamortized bond premium	388,061			322,473	
Less: Current portion	(2,253,800)			(2,361,874)	
Due in more than one year	$14,550,307			$12,155,710	

Description of Debt:

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

The Bonds are subject to a reserve requirement at any date of the lesser of (i) 10% of the principal amounts of the Bonds, (ii) an amount equal to the maximum annual debt service payments payable to maturity of the Bonds, or (iii) 125% of the average annual debt service payments payable through maturity of the Bonds.

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

	2010 Revenue Refunding Bonds		
Year Ending December 31,	Principal	Interest	Total
2013	$ 2,400,000	$ 449,000	$ 2,849,000
2014	2,495,000	352,100	2,847,100
2015	2,595,000	251,300	2,846,300
2016	4,330,000	129,900	4,459,900
	$ 11,820,000	$ 1,182,300	$ 13,002,300

NOTE E – NET POSITION

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

	2012	2011
Maintenance reserve:		
For replacement and maintenance expenditures on water storage and delivery systems and hydroelectric generation facilities.	$ 18,268	$ 17,799
Operating reserve	1,000,000	1,000,000
Total committed net position	$ 1,018,268	$ 1,017,799

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

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

NOTE F – DISTRIBUTIONS TO MEMBER DISTRICTS

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

	2012	2011
Oakdale Irrigation District	$ 1,000,000	$ 1,000,000
South San Joaquin Irrigation District	1,000,000	1,000,000
Total distributions to Member Districts	$ 2,000,000	$ 2,000,000

NOTE G – EMPLOYEES' RETIREMENT PLAN

Plan Description: The Authority contributes to the California Public Employees Retirement System (PERS), a cost-sharing 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 Authority 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 Authority is a member of the Miscellaneous 2.5% at 55 Risk Pool. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

Funding Policy: Active plan members are required to contribute 8% of their annual covered salary, which is shared between the Authority and the employees. The Authority agrees to contribute approximately 5.7% of the employee's contribution and the employees contribute approximately 2.3% as specified in the related MOU. Contributions made on behalf of Authority employees total \$16,226 and \$15,197 for the years ended December 31, 2012 and 2011, respectively. The Authority is also required to contribute at an actuarially determined rate: the rate for January 1 to June 30, 2011 was 10.263%, the rate for July 1, 2011 to June 30, 2012 was 13.353%, and the rate from July 1 to December 31, 2012 was 13.914%. The contribution requirements of plan members and the Authority are established and may be amended by PERS. The Authority's total contributions for years ended December 31, 2012, 2011, and 2010 were \$54,529, \$45,246 and \$65,087, respectively.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The Authority's other postemployment benefits (OPEB) plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Authority. The Plan provides healthcare insurance coverage for eligible retirees through the Authority'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 Authority. Since premiums are determined for active employees and retirees on a combined basis, an implied subsidy must be reflected under GASB 45. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the Project and its employees as approved by the Commissioners. The Plan provides that the Authority will continue to provide retired employees group medical coverage and that retired employees will reimburse the Authority 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 Authority are established and may be amended by the Authority. The Authority'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 Authority to fund postretirement healthcare premiums on a pay-as-you go basis. The Authority has no separate trust or plan assets.

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

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

	2012	2011
Annual required contribution (ARC)	\$ 5,750	\$ 5,219
Adjustment to annual required contribuion	(351)	351
Interest on net OPEB obligation	77	81
Annual OPEB cost (expense)	5,476	5,651
Contributions made	(2,901)	(2,859)
Increase in net asset	2,575	2,792
Net OPEB obligation beginning of year	2,792	
Net OPEB obligation (asset) - end of year	\$ 5,367	\$ 2,792

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	$ 6,478	100.00%	$ -
December 31, 2011	5,651	50.59%	2,792
December 31, 2012	5,476	52.98%	5,367

Funded Status and Funding Progress: As of December 31, 2012 and 2011, 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 on the following page, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the December 31, 2012 and 2011 valuations, the Authority elected to use the alternative measurement method as allowed under Governmental Accounting Standards Board Statement No. 45. The Authority computed its ARC using the unit cost credit method with UAAL amortized as a level dollar amount. The actuarial assumptions include health premium increases of 5.2% to 8.3% in 2012 and 4.0% to 9.4% in 2011 and the following assumptions for both 2012 and 2011: a 4.0% investment rate of return, an average retirement age of 60, a 93% to 100% probability of remaining employed until retirement and an average life expectancy of more than 65 years. The initial UAAL was amortized as a level dollar amount over an open 30-year period as of December 31, 2012 and 2011, respectively.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (b)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2010	$ -	$ 51,820	$ 51,820	0.00%	$ 406,509	12.75%
December 31, 2011	-	36,343	36,343	0.00%	243,203	14.94%
December 31, 2012	-	35,314	35,314	0.00%	262,075	13.47%

NOTE I – CONTINGENCIES

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 Authority'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 Authority.

Tax Compliance: The Authority's 1984 and 1994 Revenue Bonds have been retired; however, there were some interpretations and estimates made in regard to that Bond Issue's compliance with certain Federal tax laws and the handling of Bond proceeds by the Authority. The treatment of such Bond proceeds by the Authority was in accordance with the directions of the Authority's Bond Counsel; however, no approval of this treatment by the Internal Revenue Service (IRS) has been requested or received in regard to the final disposition of this matter. The potential impact of any adverse finding by the IRS, should any be made, is unknown at the present time.

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

COMPLIANCE REPORT

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

To the Commissioners
Tri-Dam Power Authority
Strawberry, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Tri-Dam Power Authority (the Authority) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 15, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

To the Commissioners
Tri-Dam Power Authority

Purpose of this Report

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

Richardson & Company

April 15, 2013

TRI-DAM POWER AUTHORITY

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended December 31, 2012

CURRENT YEAR FINDINGS:

None

STATUS OF PRIOR YEAR FINDINGS:

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Condition: The Authority's capital assets were misstated.

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

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

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