TRI-DAM PROJECT

AUDITED FINANCIAL STATEMENTS

December 31, 2014

TRI-DAM PROJECT

AUDITED FINANCIAL STATEMENTS

December 31, 2014 and 2013

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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, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

Other 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 8, 2015 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, LLP

April 8, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This discussion and analysis provides an overview of the Tri-Dam Project's (Project) financial position as of December 31, 2014 and 2013, and its financial performance for the years then ended. Condensed financial information for 2012 is also presented for comparison purposes. We encourage readers to consider the information presented here in conjunction with the more comprehensive financial statements, the notes to the financial statements, and the other additional information provided.

OPERATIONAL & FINANCIAL HIGHLIGHTS

- In April of 2014, Tri-Dam's Board of Directors appointed Ron Berry as the new general manager. Mr. Berry has over 26 years of experience with Tri-Dam Project and previously served as Tri-Dam's operations supervisor.
- On January 1, 2014, the Project began delivery of electricity to the City of Santa Clara, California through the city's electric utility, Silicon Valley Power (SVP). The new agreement with SVP calls for a fixed contract price with pre-determined increases throughout the 10-year term.
- The impact of the ongoing California drought continued to negatively impact the Project, leading to significantly curtailed energy production at its upper-works hydroelectric facilities in the Sierra Nevada Mountains.
- The Project completed the Beardsley Reservoir recreation improvements, a major milestone in fulfilling its Federal Energy Regulatory Commission (FERC) license conditions.
- Total net position, the level by which total assets exceed total liabilities, declined by $949,000, from $84.9 million at December 31, 2013 to $83.9 million at December 31, 2014. Although results of operations remained positive, with net earnings of $7.8 million, distributions to the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts) exceeded net earnings, totaling $9.3 million for the year. Distributions to Member Districts declined $3.8 million from the prior year.
- Operating revenues declined considerably during 2014, and totaled only $15.5 million during the year, compared to $22.5 million during 2013. The decline was entirely attributable to lower energy generation as a result of the ongoing drought.
- Operating expenses also declined considerably during 2014, totaling $7.1 million versus $10.4 million during 2013. The decrease was primarily due to the completion of the Beardsley Reservoir recreation improvements, the elimination of power marketing fees, and lower general and administrative expense.
- Nonoperating revenues decreased from $1.9 million during 2013 to $748,000 during 2014. The decrease was primarily due to grant revenue earned during 2013 for construction of the Beardsley boat launch. Excluding 2013 grant revenue, nonoperating revenues increased by $323,000 during 2014.
- Nonoperating expenses remained relatively stable, declining $118,000 from $1.4 million in 2013 to $1.3 million during 2014.

FINANCIAL ANALYSIS OF THE PROJECT

This section is intended to serve as an introduction to the Project's 1) Basic Financial Statements, 2) Required Supplementary Information, 3) Other Supplementary Information, and 4) Compliance Report. The financial data contained herein reflects the audited 2014 and 2013 financial results.

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

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

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

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

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

Required Supplementary Information
The Required Supplementary Information section reports the schedule of funding progress of the Project's other postemployment benefits plan.

Other Supplementary Information
The Other Supplementary Information section provides additional 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 2014, 2013 and 2012.

Condensed Balance Sheets

	2014	2013	Increase (Decrease)	2012	Increase (Decrease)
Assets and Deferred Outflows					
Current Assets	$ 19,297,623	$ 19,749,272	$ (451,649)	$ 23,539,134	$ (3,789,862)
Capital Assets, Net	58,370,251	59,230,494	(860,243)	60,443,538	(1,213,044)
Deferred Outflows	7,239,490	7,193,773	45,717	2,742,289	4,451,484
Total Assets & Deferred Outflows	$ 84,907,364	$ 86,173,539	$ (1,266,175)	$ 86,724,961	$ (551,422)
Liabilities					
Current Liabilities	$ 698,669	$ 1,046,439	$ (347,770)	$ 1,093,274	$ (46,835)
Noncurrent Liabilities	271,168	240,278	30,890	191,492	48,786
Total Liabilities	969,837	1,286,717	(316,880)	1,284,766	1,951
Net Position					
Net Investment in Capital Assets	58,370,251	59,230,494	(860,243)	60,443,538	(1,213,044)
Unrestricted	25,567,276	25,656,328	(89,052)	24,996,657	659,671
Total Net Position	83,937,527	84,886,822	(949,295)	85,440,195	(553,373)
Total Liabilities and Net Position	$ 84,907,364	$ 86,173,539	$ (1,266,175)	$ 86,724,961	$ (551,422)

Assets and Deferred Outflows of Resources
2014 compared to 2013
Current assets declined by $452,000 during 2014, primarily due to lower power generation receipts, partially offset by an increase in amounts due to the Project from its related but separate entity, Tri-Dam Power Authority. Current assets included the Project's cash equivalents and investments, which were comprised of approximately $7.7 million in deposits with financial institutions and $9.0 million in investments. Nearly all of the Project's investments continued to be managed by Highmark Capital Management.

Current assets also included various accounts receivable due to the Project. The primary receivable at December 31, 2014, was $1.3 million due from SVP for wholesale electricity sales. Other accounts receivable due the Project in the normal course of business included $331,000 due from Pacific Gas and Electric Company (PG&E) for headwater benefits created by the Project's hydroelectric facilities on the middle fork of the Stanislaus River. In addition, the Project was due a total of $472,000 from Tri-Dam Power Authority for accrued labor costs and equipment rental.

Noncurrent assets represented the Project's capital assets, which decreased by $860,000, net of accumulated depreciation. Also see the capital assets discussion later in this section.

Deferred outflows of resources represented the intangible assets associated with the costs of renewing the Project's FERC license and the corresponding license compliance conditions. 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 $83,000 a year over an initial period of 40 years (ending in 2045). The Project completed the Beardsley Reservoir recreation improvements during 2014, incurring an additional $511,000, and bringing the total cost of the improvements to $4.9 million. The improvements were paid for by the Project, but remain the property of the United States Department of Agriculture, Forest Service. Upon completion, the Forest Service resumed responsibility for the ongoing operation and maintenance of the improvements.

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 included the Project's cash equivalents and investments, and were comprised of approximately $8.0 million in deposits with financial institutions and $7.5 million in investments.

The primary receivable at December 31, 2013, was $2.0 million due from Shell Energy North America (SENA) for wholesale electricity sales. In addition, current assets included $1.4 million due from the California Department of Boating and Waterways (CDBW), 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 included $328,000 due from PG&E for headwater benefits.

For 2013, noncurrent 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.

Liabilities

2014 compared to 2013

The Project ended 2014 with total liabilities of $970,000, or $317,000 less than year-end 2013 total liabilities of $1.3 million. The decline in liabilities was primarily a result of the completion of the Beardsley Recreation improvements, the remaining estimated cost of which was represented as a current liability on the Project's balance sheet at December 31, 2013. Other current liabilities as of December 31, 2014 included accounts payable incurred in the normal course of business of $147,000, accrued salaries and benefits totaling $167,000, and the estimated current portion of accrued compensated absences (vacation and sick leave) which totaled $225,000.

Noncurrent liabilities consisted of the estimated noncurrent portion of compensated absences, which totaled $181,000, and other postemployment benefits of $91,000. Other postemployment benefits represent the actuarially determined present value cost of providing current and future health benefits for retirees.

2013 compared to 2012

The Project ended 2013 with total liabilities of $1.3 million, unchanged from the prior year. Liabilities primarily consisted of accounts payable of $298,000, accrued salaries and benefits of $123,000, accrued compensated absences of $403,000, and the FERC relicensing liability of $238,000.

Net Position

2014 compared to 2013

Net position at the end of 2014 totaled $83.9 million, a decline of $949,000 from the prior year. Net position at the end of 2014 was broken down between investment in capital assets of $58.4 million, a decrease of $860,000 during the year, and unrestricted net assets of $25.6 million, a decrease of $89,000 during the year.

The net investment in capital assets represents the Project's 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.

Unrestricted net assets essentially represent the difference between the total net position and net position invested in capital assets. Unrestricted net assets include the Project's liquid assets.

Discretionary cash distributions to Member Districts exceeded net earnings (change in net position) for the fourth year in a row. 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 restrictions 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.

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 yearend 2012. As was the case in 2012, discretionary cash distributions to Member Districts exceeded net earnings.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2014	2013	Increase (Decrease)	2012	Increase (Decrease)
Operating Revenues	$ 15,460,554	$ 22,500,866	$ (7,040,312)	$ 20,489,380	$ 2,011,486
Operating Expenses	7,132,238	10,364,681	(3,232,443)	7,783,142	2,581,539
Net Operating Revenue (Expense)	8,328,316	12,136,185	(3,807,869)	12,706,238	(570,053)
Nonoperating Revenues	747,674	1,897,179	(1,149,505)	438,233	1,458,946
Nonoperating Expenses	1,304,248	1,422,737	(118,489)	1,011,880	410,857
Net Nonoperating Revenue (Expense)	(556,574)	474,442	(1,031,016)	(573,647)	1,048,089
Change in Net Position	7,771,742	12,610,627	(4,838,885)	12,132,591	478,036
Net Position, Beginning of Year	84,886,822	85,440,195	(553,373)	85,975,604	(535,409)
Add: Contribution of land by Member Districts	602,963		602,963		
Less: Distributions to Member Districts	(9,324,000)	(13,164,000)	3,840,000	(12,668,000)	(496,000)
Net Position, End of Year	$ 83,937,527	$ 84,886,822	$ (949,295)	$ 85,440,195	$ (553,373)

Operating Revenues

2014 compared to 2013

Operating revenues declined considerably during 2014, as the impact of the continuing drought curtailed power generation. For 2014, operating revenues totaled $15.5 million, a decline of $7.0 million from 2013 operating revenues of $22.5 million. Operating revenues almost entirely consisted of power generation revenue. For the fourth year in a row, rain and snowfall totals were well-below average, resulting in below average generation of approximately 240,000 MWh, as compared to long-term average generation of approximately 450,000 MWh.

Operating revenue also included headwater benefit fees from PG&E, which totaled $331,000 in 2014. Headwater benefit fees are adjusted for inflation, and increased by $4,000 from the prior year.

2013 compared to 2012
Operating revenues increased $2.0 million to $22.5 million in 2013, versus $20.5 million in 2012. 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, 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 included headwater benefit fees from PG&E, which totaled $328,000 in 2013, an increase of $6,000 from the prior year.

Nonoperating Revenues
2014 compared to 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. Nonoperating revenues declined substantially during 2014 due to grant revenue earned during the prior year. Specifically, 2013 nonoperating revenue was inflated by $1.5 million due to a grant earned for the construction of the Beardsley Reservoir boat launch and corresponding award from the CDBW. Excluding this grant revenue, 2014 nonoperating revenue actually increased $323,000 versus 2013, primarily as a result of refunds from the California Independent System Operator and PG&E for excess payments made in prior years for interconnection studies, other interconnection costs, and network upgrades, all related to the completion of the Tulloch third generating unit in 2012.

Reimbursements relate to the 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 two Member Districts. Reimbursements from the USBR represent costs incurred by Tri-Dam for managing various operations below New Melones Dam, and are calculated based upon a set number of hours and prevailing Tri-Dam wage and overhead rates. During 2014, combined reimbursements for these activities totaled $184,000, an increase of $13,000 from 2013.

Water sales declined $21,000 to $107,000 during 2014, as the Project's main water customer reduced usage relative to the prior year. Water sales are based upon usage and a predetermined 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 2014, rental income totaled $134,000, up from $65,000 in 2013. The increase was primarily attributable to the collection of several years of delinquent communication site rent, along with normal rental rate increases.

Investment income rose slightly as the balance of investable funds increased, mainly due to the continued replenishment of the Project's maintenance fund.

2013 compared to 2012
Nonoperating revenues increased substantially during the year, from $438,000 during 2012, to $1.9 million in 2013. The large increase in nonoperating revenue during 2013 was largely attributable to the recognition of the $1.5 million from a grant from the CDBW. Excluding the grant revenue, nonoperating revenues would have increased $35,000 from the prior year.

Reimbursements related to operation and maintenance activities performed by Tri-Dam on behalf of SEWD and the USBR. During 2013, combined reimbursements for these activities totaled $172,000, nearly identical to the prior year.

Water sales were higher, totaling $128,000 for 2013, up from $97,000 in 2012.

Income from the rental of equipment and facilities owned by Tri-Dam 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 fund 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.

Operating Expenses
2014 compared to 2013
Operating expenses decreased $3.2 million versus the prior year, mainly due to the completion of the Beardsley boat launch in 2013. In addition, the expiration of the Project's prior power sale agreement with SENA resulted in the elimination $1.0 million in power marketing fees incurred during 2013.

Operations and maintenance expense declined by $174,000 during 2014, primarily due to the cost of painting the spill gates at Tulloch Dam in 2013.

Wage and benefit costs increased by $40,000, or 1.3 percent versus the prior year.

Depreciation and amortization expense totaled $1.9 million, an increase of $28,000 during 2014.

Refer to the Other Supplementary Information section for additional detail of operating expenses by facility, including a comparison of 2014 and 2013 wages, benefits, and other expenses by activity and location.

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, mainly 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 (MOU) with the International Brotherhood of Electrical Workers Union, Local 1245 (IBEW). 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 of the Beardsley recreation improvements. 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 the Tulloch Dam spillway. Finally, power generation marketing fees paid to SENA increased $107,000 due to increased power generation revenue.

Nonoperating Expenses
2014 compared to 2013
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. Nonoperating expenses also include any loss on the disposal of capital assets. For 2014, nonoperating expenses declined $118,000, to $1.3 million, primarily as a result of lower river habitat monitoring expense. Operation and maintenance costs related to Goodwin Dam increased $33,000 to $303,000, as additional deferred maintenance activities were performed in response to the dry water year. The Project expects to incur significant nonoperating costs for the foreseeable future.

2013 compared to 2012
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.

CAPITAL ASSETS

	2014	2013	Increase (Decrease)
Land	$ 799,276	$ 196,313	$ 602,963
Construction in progress	169,645	119,394	50,251
Dams and power plants	88,675,065	88,590,673	84,392
Power plant equipment	5,235,714	5,235,714	-
Telemetry equipment	2,735,628	2,729,348	6,280
Buildings	977,153	977,153	-
Other equipment	2,668,748	2,637,469	31,279
Total Capital Assets	101,261,229	100,486,064	775,165
Less: accumulated depreciation	(42,890,978)	(41,255,570)	(1,635,408)
Net Capital Assets	$ 58,370,251	$ 59,230,494	$ (860,243)

Capital assets net of accumulated depreciation decreased $860,000 to $58.4 million, from $59.2 million at the end of 2013. The decline resulted from normal depreciation of $1.7 million, and an asset disposal (expense) totaling $105,000, net of capital asset additions of $333,000 and a land contribution from the Member Districts valued at $603,000. The land contribution was made in order to fulfill an additional FERC license requirement, and will be developed into a day-use recreational facility at Lake Tulloch. In addition to the land contribution, other significant capital asset additions included progress payments made for new switchgear at the Project's Beardsley powerhouse totaling $137,000, and an additional $83,000 expended on an up-rating analysis on the Donnells generating unit. The Donnells up-rate project was initiated in 2013, but has been deferred to a future period and re-classified out of construction in progress and expensed as a loss on disposal during 2014. The Project also purchased one new vehicle during the year.

Construction in progress as of year-end totaled $170,000, the majority of which was the Beardsley powerhouse switchgear replacement project.

EXPECTATIONS FOR 2015

As mentioned previously, the Project entered into a new power purchase and sale agreement with the City of Santa Clara, California. The agreement is for a 10-year term, and provides for a fixed contract price with scheduled annual adjustments for all electrical energy, capacity attributes and any renewable energy credits or other environmental attributes, thus eliminating any market price fluctuations to the Project.

Although the new power sale agreement eliminates Tri-Dam's exposure to fluctuations in wholesale energy prices, the Project remains exposed to the ongoing severe drought in California. As was the case last year, the 2014/2015 water year will undoubtedly be one of the worst on record, with average snow pack and precipitation near historic lows. Moreover, the Project's power generation capability is again subject to water conservation efforts by the Member Districts, which may have the effect of further minimizing water releases from the Donnells and Beardsley Reservoirs. Through the first quarter of 2015, 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.

Expenses for 2015 are again 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 2016 or beyond, with only those projects deemed immediately necessary to be implemented in 2015. Project staff will also focus primarily on routine maintenance, along with other relatively low cost upgrades to the Project's infrastructure. Management anticipates utilizing reserves and current cash flow to fund all capital projects.

The MOU with the IBEW expired on February 28, 2015, and a new agreement is currently being negotiated.

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, 2014 and 2013

	2014	2013
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current Assets		
Cash and cash equivalents	$ 10,194,686	$ 8,041,426
Investments	6,588,425	7,481,389
Accounts receivable:		
Headwater benefit fees, PG&E	331,206	327,517
Power generation receivable	1,283,256	1,990,487
Grants receivable		1,443,163
Services receivable, Tri-Dam Power Authority	472,341	81,342
Other	197,394	209,859
Accrued interest receivable	11,702	14,173
Prepaid expenses and other assets	218,613	159,916
Total Current Assets	19,297,623	19,749,272
Noncurrent Assets		
Capital Assets		
Not depreciated	968,921	315,707
Depreciated, net	57,401,330	58,914,787
Total Capital Assets	58,370,251	59,230,494
TOTAL ASSETS	77,667,874	78,979,766
DEFERRED OUTFLOWS OF RESOURCES		
Federal Energy Regulatory Commission relicensing costs	8,213,938	7,941,235
Accumulated amortization	(974,448)	(747,462)
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,239,490	7,193,773
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 84,907,364	$ 86,173,539
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts payable	$ 147,079	$ 297,972
Accrued salaries and benefits	167,246	123,480
Unearned revenues	11,035	10,973
FERC relicensing liability		238,393
Deposits	57,911	57,911
Due to the Federal Energy Regulatory Commission	90,270	90,247
Compensated absences, current portion	225,128	227,463
Total Current Liabilities	698,669	1,046,439
Noncurrent Liabilities		
Compensated absences, noncurrent portion	180,508	175,126
Other postemployment benefits	90,660	65,152
Total Noncurrent Liabilities	271,168	240,278
TOTAL LIABILITIES	969,837	1,286,717
NET POSITION		
Net investment in capital assets	58,370,251	59,230,494
Unrestricted	25,567,276	25,656,328
TOTAL NET POSITION	83,937,527	84,886,822
TOTAL LIABILITIES AND NET POSITION	$ 84,907,364	$ 86,173,539

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, 2014 and 2013

	2014	2013
Operating Revenues		
Power generation revenues	$ 15,129,348	$ 22,173,349
Headwater benefit fees	331,206	327,517
Total Operating Revenues	15,460,554	22,500,866
Operating Expenses		
Operations	1,381,044	1,392,559
Maintenance	1,460,855	1,623,656
General and administrative	2,372,206	4,452,981
Power generation marketing	30	1,005,860
Depreciation and amortization	1,918,103	1,889,625
Total Operating Expenses	7,132,238	10,364,681
NET INCOME FROM OPERATIONS	8,328,316	12,136,185
Nonoperating Revenues (Expenses)		
Beardsley boat launch grant revenue		1,472,435
Reimbursements	184,330	171,560
Water sales	107,041	128,226
Rental of equipment and facilities	134,407	64,797
Investment earnings	46,699	43,659
Other nonoperating revenue	275,197	16,502
River habitat studies	(907,193)	(1,080,849)
Goodwin Dam expenses	(302,551)	(269,778)
(Loss) gain on disposal of capital assets	(94,504)	(72,110)
Total Nonoperating Revenues (Expenses)	(556,574)	474,442
CHANGE IN NET POSITION	7,771,742	12,610,627
Net position, beginning of year	84,886,822	85,440,195
Add: contribution of land by Member Districts	602,963	
Less: distributions to Member Districts	(9,324,000)	(13,164,000)
NET POSITION, END OF YEAR	$ 83,937,527	$ 84,886,822

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

TRI-DAM PROJECT

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	$ 15,836,579	$ 22,384,731
Other operating receipts	327,579	327,915
Cash payments to suppliers for goods and services	(3,871,214)	(5,558,282)
Cash payments to suppliers for relicensing projects	(511,097)	(5,851,288)
Cash payments to employees for services	(1,871,166)	(1,686,138)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,910,681	9,616,938
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Member Districts	(9,324,000)	(13,164,000)
Cash received for relicensing project grants	1,443,163	29,272
Other net nonoperating revenues and expenses	(496,304)	(702,975)
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES	(8,377,141)	(13,837,703)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(333,090)	(607,959)
Proceeds from disposal of capital assets	10,676	25,030
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(322,414)	(582,929)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(5,023,478)	(18,621,045)
Proceeds from sales of investment securities	5,911,209	15,345,000
Interest received	54,403	66,405
NET CASH USED FOR INVESING ACTIVITIES	942,134	(3,209,640)
NET DECREASE IN CASH AND CASH EQUIVALENTS	2,153,260	(8,013,334)
Cash and cash equivalents - beginning of year	8,041,426	16,054,760
CASH AND CASH EQUIVALENTS- END OF YEAR	$ 10,194,686	$ 8,041,426
Reconciliation of net income from operations to net cash provided by operating activities:		
Net income from operations	$ 8,328,316	$ 12,136,185
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,918,103	1,889,625
Changes in operating assets and liabilities:		
Decrease (increase) in FERC relicensing costs	(272,704)	(4,617,246)
Decrease (increase) in power generation receivable	707,231	211,382
Decrease (increase) in other receivables	(394,688)	(5,748)
Decrease (increase) in prepaid expenses and other assets	(58,697)	789
Increase (decrease) in accounts payable	(150,893)	(296,003)
Increase (decrease) in accrued salaries and benefits	43,766	(9,122)
Increase (decrease) in FERC relicensing liability	(238,393)	238,393
Increase (decrease) in unearned revenue	62	6,146
Increase (decrease) in due to FERC	23	
Increase (decrease) in compensated absences	3,047	43,070
Increase (decrease) in other postemployment benefits	25,508	17,467
Increase (decrease) in deposits		2,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 9,910,681	$ 9,616,938
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Change in the fair value of investments	$ (5,233)	$ (1,415)
Contribution of land by Member Districts	$ 602,963	

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 and 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 Member Districts and the hydraulic generation of electricity. These activities are carried out pursuant to the Member Districts’ water rights and the Member 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 is 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 position.

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

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

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

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

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

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

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

Accounts Receivable: Trade accounts receivable are carried at net realizable values. The Project records power generation receivables for energy deliveries to the City of Santa Clara, California in 2014 and Shell Energy North America (SENA) in 2013 and certain energy-related amounts due from Pacific Gas and Electric Company (PG&E). The Project has determined that an allowance for doubtful accounts was not necessary.

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

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

It is the Project's policy to capitalize 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

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

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.

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 $6,565,949 at Beardsley reservoir from 2009 to 2014 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 recognized as grant revenue and administrative expenses in 2013. The remaining recreation costs of $4,889,949 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, 2014 and 2013 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

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

benefit payments from PG&E for operating adjustments made by the Project for the benefit of downstream facilities owned by PG&E.

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 was $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.

<u>Risk Management</u>: 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, 2014 and 2013. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from the prior year.

<u>Related Party Transactions</u>: Significant related party transactions consist primarily of cash distributions to and contributions from 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.

<u>New Pronouncements:</u> 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.

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:

	2014	2013
Cash and cash equivalents		
Cash on hand	$ 357	$ 300
Deposits with financial institutions	7,742,502	8,011,985
Money market mutual funds	2,446,133	23,460
Local Agency Investment Fund (LAIF)	5,694	5,681
Total cash and cash equivalents	10,194,686	8,041,426
Investments		
Investments held by Union Bank	6,588,425	7,481,389
Total investments	6,588,425	7,481,389
Total cash and investments	$ 16,783,111	$ 15,522,815

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

	2014	2013
Cash and cash equivalents		
Cash on hand	$ 357	$ 300
Deposits with financial institutions	7,742,502	8,011,985
Total cash and deposits	7,742,859	8,012,285
U.S. agency securities	5,403,541	4,696,241
Commercial paper		1,848,875
Medium term corporate notes	1,184,884	936,273
Money market mutual funds	2,446,133	23,460
Local Agency Investment Fund (LAIF)	5,694	5,681
Total investments	9,040,252	7,510,530
Total cash and investments	$ 16,783,111	$ 15,522,815

NOTE B – CASH AND INVESTMENTS (Continued)

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

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

The Project complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements, with the exception of the percentage limits for money market mutual funds. The money market mutual funds are invested in highly rated U.S. Treasury and agency securities. The Project wil 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, 2014:

		Remaining Maturity	
	Total	12 Months or Less	13-24 Months
U.S. agency securities	$ 5,403,541	$ 2,957,443	$ 2,446,098
Medium term corporate notes	1,184,884	878,774	306,110
Money market mutual funds	2,446,133	2,446,133	
LAIF	5,694	5,694	
Total	$ 9,040,252	$ 6,288,044	$ 2,752,208

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/Aaa	AA+/Aa1	AA-/Aa3	A+/A1	Not Rated
U.S. agency securities	$ 5,403,541	N/A		$ 5,403,541			
Medium term corporate notes	1,184,884	A			$ 625,966	$ 558,918	
Money market mutual funds	2,446,133	AAA/Aaa	$ 2,446,133				
LAIF	5,694	N/A					$ 5,694
	$ 9,040,252		$ 2,446,133	$ 5,403,541	$ 625,966	$ 558,918	$ 5,694

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, 2014:

Issuer	Investment Type	Amount
Federal National Mortgage Association	U.S. Agency Securities	$ 2,679,331
Federal Home Loan Bank	U.S. Agency Securities	2,474,187

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, 2014 and 2013, the carrying amounts of the Project's deposits were $7,742,502 and $8,011,985 and the balances in financial institutions were $7,977,344 and $8,114,832, respectively. Of the balances in financial institutions, $250,000 at December 31, 2014 and 2013 was covered by federal depository insurance each year and the remaining amounts were secured by a pledge of securities by the financial institution, but not in the name of the 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, 2014 by all public agencies in LAIF is $60,274,686,369, which is managed by the State Treasurer. Of that amount, 98.68% is invested in non-derivative financial products and 1.32% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the 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, 2014	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2014
Capital assets, not being depreciated:					
Land	$ 196,313	$ 602,963			$ 799,276
Construction in progress	119,394	271,374	$ (105,180)	$ (115,943)	169,645
Total capital assets not being depreciated	315,707	874,337	(105,180)	(115,943)	968,921
Capital assets, being depreciated:					
Dams and power plants	88,590,673	8,919		75,473	88,675,065
Power plant equipment	5,235,714				5,235,714
Telemetry equipment	2,729,348	6,280			2,735,628
Buildings	977,153				977,153
Other equipment	2,637,469	46,517	(55,708)	40,470	2,668,748
Total capital assets being depreciated	100,170,357	61,716	(55,708)	115,943	100,292,308
Accumulated depreciation:					
Dams and power plants	(35,835,724)	(1,251,751)			(37,087,475)
Power plant equipment	(1,441,498)	(161,281)			(1,602,779)
Telemetry equipment	(1,344,020)	(91,460)			(1,435,480)
Buildings	(682,840)	(23,740)			(706,580)
Other equipment	(1,951,488)	(162,884)	55,708		(2,058,664)
Total accumulated depreciation	(41,255,570)	(1,691,116)	55,708		(42,890,978)
Total capital assets being depreciated, net	58,914,787	(1,629,400)		115,943	57,401,330
Capital assets, net	$ 59,230,494	$ (755,063)	$ (105,180)	$ -	$ 58,370,251

NOTE C – CAPITAL ASSETS (Continued)

	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 D – NONCURRENT LIABILITIES

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

	Balance at January 1, 2014	Additions	Repayments	Balance at December 31, 2014	Due within One Year
Compensated absences	$ 402,589	$ 202,672	$ (199,625)	$ 405,636	$ 225,128
Other postemployment benefits	65,152	43,624	(18,116)	90,660	
	$ 467,741	$ 246,296	$ (217,741)	$ 496,296	$ 225,128

NOTE D – NONCURRENT LIABILITIES (Continued)

	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

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 was never 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 commited net position balances at December 31:

	2014	2013
Maintenance reserve	$ 3,000,000	$ 1,500,000
Operating reserve	6,000,000	6,000,000
Total commited net position	$ 9,000,000	$ 7,500,000

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 $15 million with additions of $1.5 million per year ($750,000 each January and July) beginning during 2013. The operating reserve was established at $6 million 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:

	2014	2013
Oakdale Irrigation District	$ 4,662,000	6,582,000
South San Joaquin Irrigation District	4,662,000	6,582,000
Total distributions to Member Districts	$ 9,324,000	$ 13,164,000

NOTE G – EMPLOYEES' RETIREMENT PLAN

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

Funding Policy: Active plan members are required to contribute 8% of their annual covered salary, which is shared between the 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 totaled $113,761 and $114,706 for the years ended December 31, 2014 and 2013, respectively. The contribution requirements of plan members and the Project is established and may be amended by CalPERS.

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

	July 1, 2014 to December 31, 2014	July 1, 2013 to June 30, 2014	January 1, 2013 to June 30, 2013
Contribution percentage:			
2.5% at 55 Risk Pool	15.70%	14.66%	13.91%
2.0% at 62 Risk Pool	6.25%	6.25%	None

	Year Ended December 31		
	2014	2013	2012
Contribution amount:			
2.5% at 55 Risk Pool	$ 412,364	$ 385,475	$ 380,603
2.0% at 62 Risk Pool	4,387	None	None
	$ 416,751	$ 385,475	$ 380,603

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.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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 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.

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:

	2014	2013
Annual required contribution (ARC)	$ 43,126	$ 35,282
Interest on net OPEB obligation	498	503
Annual OPEB cost (expense)	43,624	35,785
Contributions made	(18,116)	(18,318)
Increase in net OPEB obligation	25,508	17,467
Net OPEB obligation beginning of year	65,152	47,685
Net OPEB obligation (asset) - end of year	$ 90,660	$ 65,152

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, 2012	$ 39,038	49.78%	$ 47,685
December 31, 2013	35,785	51.19%	65,152
December 31, 2014	43,624	41.53%	90,660

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

	2014	2013
Actuarial accrued liability (AAL)	$ 264,293	$ 229,820
Actuarial value of plan assets		
Unfunded actuarial accrued (liability) asset (UAAL)	$ (264,293)	$ (229,820)
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	$ 1,705,376	$ 1,751,596
UAAL as a percentage of covered payroll	15.50%	13.12%

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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

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

For the December 31, 2014 and 2013 valuations, the 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 2014 include health premium increases of 3.1% to 8.5%, a 3.56% investment rate of return and an 83% to 100% probability of remaining employed until retirement. The actuarial assumptions in 2013 include health premium increases of 5.0% to 8.5%, a 4.5% investment rate of return and an 88% to 100% probability of remaining employed until retirement. The following assumptions were used for both 2014 and 2013: an average retirement age of 60 and an average life expectancy of more than 65 years. The initial UAAL was amortized as a level dollar amount over an open 30-year period as of December 31, 2014 and 2013, respectively.

NOTE I – CONTINGENCIES AND COMMITMENTS

Regulatory

Bay Delta Water Quality Standards: The State Water Resources Control Board 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. The last Water Quality Control Plan was adopted in 2006, and the State Water Resources Control Board is presently working on an amendment to the 2006 plan which will likely require the bypass or release of additional water on the Stanislaus River. If adopted and implemented, this amended plan could 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, and therefore also negatively impact the Project's power generating activities on the Stanislaus River.

Biological Opinion: In June 2009, the National Marine Fisheries Service issued a final biological opinion that would impact the USBR's water releases from its New Melones Project, and therefore negatively impact the amount of water the Member Districts have available for use and diversion from the Stanislaus River. Although the U.S. District Court overturned the biological opinion upon challenge from the Member Districts, the U.S. Ninth Circuit Court of Appeals upheld the opinion in December 2014. The Member Districts are working with the USBR on a plan of operation for New Melones that will enable the USBR to comply with the requirements of the 2009 biological opinion without negatively affecting the Member Districts' senior water rights.

The Member 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 these regulatory actions to the Member Districts or the Project.

NOTE I – CONTINGENCIES AND COMMITMENTS (Continued)

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.

Effect of Drought

The Project continues to be negatively impacted by the ongoing severe drought in California. As was the case last year, the 2014/2015 water year is certain to again be one of the worst on record, with precipitation and snow pack totals well-below historical averages. Moreover, the 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 2015, 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. Furthermore, Governor Jerry Brown's Executive Order B-29-15 issued on April 1, 2015, calls for mandatory water restrictions and other measures that will be implemented through emergency regulations to be adopted by the State Water Resources Control Board and the Department of Water Resources. It is unknown at this time what effect, if any, these emergency regulations may have on the Project's operations.

Also as a result of the drought, expenses for 2015 have been budgeted under a worst case scenario, with no increases in staff and minimal capital expenditures. Management has again analyzed the impact of deferring certain capital projects into 2016 or beyond, with only those projects deemed immediately necessary to be implemented in 2015. Nonetheless, the Project 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, although certain capital projects may be funded from the Project's maintenance reserve.

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 are likely to be impacted by the drought.

REQUIRED SUPPLEMENTARY INFORMATION

TRI–DAM PROJECT

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2014 and 2013

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2012	$ -	$ 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%
December 31, 2014	-	264,293	264,293	0.00%	1,705,376	15.50%

OTHER SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT

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

December 31, 2014 and 2013

	2014	2013
Donnells Facility:		
Operations		
Supervision wages and benefits	$ 32,780	$ 26,123
Hydraulic wages and benefits	12,552	11,280
Electric wages and benefits	220,810	235,493
PG&E Islanding wages and benefits		5,596
Other wages and benefits	13,741	18,449
Supplies and materials	23,667	4,741
Total Operations	303,550	301,682
Maintenance		
Supervision wages and benefits	20,724	2,378
Structures wages and benefits	11,651	29,446
Reservoirs and dams wages and benefits	42,075	32,717
Electrical plant wages and benefits	63,019	67,902
Other wages and benefits	7,237	1,294
High voltage wages and benefits	1,228	3,901
Communications and security wages and benefits	8,500	15,770
Supplies and materials	49,083	37,464
Total Maintenance	203,517	190,872
Power generation marketing	83	567,299
Total Donnells Facility	507,150	1,059,853
Beardsley Facility:		
Operations		
Supervision wages and benefits	22,900	25,993
Hydraulic wages and benefits	24,185	22,056
Electric wages and benefits	173,512	187,173
Other wages and benefits	20,670	20,942
Supplies and materials	4,658	3,822
Total Operations	245,925	259,986
Maintenance		
Supervision wages and benefits	141,196	124,211
Structures wages and benefits	28,331	27,467
Reservoirs and dams wages and benefits	53,382	24,645
Electrical plant wages and benefits	59,785	40,567
Other wages and benefits	14,394	3,890
High voltage wages and benefits	296	
Communications and security wages and benefits	15,811	15,062
Supplies and materials	88,336	32,893
Total Maintenance	401,531	268,735

TRI-DAM PROJECT

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

December 31, 2014 and 2013

	2014	2013
General and Administrative		
USFS resource management support	$ 58,171	$ 105,327
Total General & Administrative	58,171	105,327
Power generation marketing	(21)	105,834
Total Beardsley Facility	705,606	739,882
Tulloch Facility:		
Operations		
Supervision wages and benefits	126,603	126,050
Hydraulic wages and benefits	44,866	36,732
Electric wages and benefits	240,039	276,380
Other wages and benefits	30,435	34,399
Supplies and materials	4,902	8,194
Total Operations	446,845	481,755
Maintenance		
Supervision wages and benefits	78,456	69,444
Structures wages and benefits	39,344	56,230
Reservoirs and dams wages and benefits	34,431	79,328
Electrical plant wages and benefits	179,096	142,538
Other wages and benefits	3,768	27,543
High voltage wages and benefits	609	9,010
Communications and security wages and benefits	8,396	17,118
Supplies and materials	124,638	483,740
Total Maintenance	468,738	884,951
General and Administrative		
Supplies and materials	2,677	3,386
Headwater benefit assessment	90,293	90,247
Other	7,680	3,986
Total General and Administrative	100,650	97,619
Power generation marketing	(32)	332,727
Total Tulloch Facility	1,016,201	1,797,052
Mt Elizabeth Facility:		
Operations		
Supplies and materials	11,898	12,905
Maintenance		
Structures wages and benefits	5,205	448
Other wages and benefits	1,978	1,591
Communications and security wages and benefits	19,481	1,130
Supplies and materials	3,061	1,039
Total Maintenance	29,725	4,208
Total Mt. Elizabeth Facility	41,623	17,113

TRI-DAM PROJECT

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

December 31, 2014 and 2013

	2014	2013
Strawberry Peak Facility:		
Operations		
Supplies and materials	$ 7,767	$ 7,730
Maintenance		
Supervision wages and benefits	834	
Structures wages and benefits	974	267
Other wages and benefits	3,668	698
Communications and security wages and benefits	8,462	4,215
Supplies and materials	6,581	2,615
Total Maintenance	20,519	7,795
Total Strawberry Peak	28,286	15,525
Operations Center:		
Operations		
Supervision wages and benefits	21,258	21,971
Electric wages and benefits	199,393	151,873
Supplies and materials	3,831	5,603
Total Operations	224,482	179,447
Maintenance		
Structures wages and benefits	885	3,435
Other wages and benefits	22,703	550
Communications and security wages and benefits	51,968	30,997
Supplies and materials	11,093	8,030
Total Maintenance	86,649	43,012
Total Operations Center	311,131	222,459
Service Center Facilities:		
Operations		
Hydraulic wages and benefits		555
Total Operations		555
Maintenance		
Structures wages and benefits	2,311	3,398
Other wages and benefits		1,122
Supplies and materials	185,005	195,977
Total Maintenance	187,316	200,497
Total Service Center	187,316	201,052
Division Point Facility:		
Operations		
Supervision wages and benefits	21,258	21,968
Hyrdraulic wages and benefits	22,187	21,200
Electric wages and benefits	94,421	102,621
Supplies and materials	2,711	2,710
Total Operations	140,577	148,499

TRI-DAM PROJECT

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

December 31, 2014 and 2013

	2014	2013
Maintenance		
Supervision wages and benefits	$ 2,947	$ 1,053
Structures wages and benefits	6,253	388
Reservoirs and dams wages and benefits	25,214	1,237
Other wages and benefits	1,950	797
Communications and security wages and benefits	4,304	11,164
Supplies and materials	22,192	8,947
Total Maintenance	62,860	23,586
Total Division Point	203,437	172,085
Total Operations and Maintenance	2,841,899	3,016,215
Overall General and Administrative:		
Outside services	657,390	2,450,964
Administrative wages and benefits	580,358	654,822
Property insurance	393,549	438,619
FERC license fees	205,714	196,451
Safety fees and expense	85,743	135,251
Other wages and benefits-mobile equip. operation	67,464	71,389
Streamgaging	63,048	63,277
Miscellaneous	8,801	62,959
Utilities	30,828	34,692
Meals allowance and travel expense	25,397	40,902
Telephone, internet, data links	42,170	43,903
Office supplies and expense	31,561	25,963
Computer supplies	7,778	11,861
County taxes	6,261	10,043
Professional organizations	7,323	8,939
Total Overall General and Administrative	2,213,385	4,250,035
Total General and Administrative	2,372,206	4,452,981
Total Power Generation Marketing	30	1,005,860
Depreciation and Amortization		
Depreciation on capital assets	1,691,116	1,723,863
FERC relicensing amortization	226,987	165,762
Total Depreciation and Amortization	1,918,103	1,889,625
TOTAL OPERATING EXPENSES	$ 7,132,238	$ 10,364,681
SUMMARY OF OPERATING EXPENSES BY TYPE		
Operations	$ 1,381,044	$ 1,392,559
Maintenance	1,460,855	1,623,656
General and administrative	2,372,206	4,452,981
Power generation marketing	30	1,005,860
Depreciation and amortization	1,918,103	1,889,625
TOTAL OPERATING EXPENSES	$ 7,132,238	$ 10,364,681

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, 2014, 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 8, 2015.

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, LLP

April 8, 2015