TRI-DAM PROJECT

AUDITED FINANCIAL STATEMENTS

December 31, 2011

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December 31, 2011 and 2010

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Richardson & Company

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Tri-Dam Project (the Project) as of December 31, 2011 and 2010 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated April 11, 2012, 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information 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.

To the Board of Directors
Tri-Dam Project

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 the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Richardson & Company

April 11, 2012

MANAGEMENT’S DISCUSSION
AND ANALYSIS

Tri-Dam Project

Management's Discussion and Analysis

For the Year Ended December 31, 2011

This discussion and analysis provides an overview of the Tri-Dam Project's (Project) financial position as of December 31, 2011 and 2010, and the Project's financial performance for the years then ended. We encourage readers to consider the information presented here in conjunction with the more comprehensive information furnished in the accompanying transmittal letter, our basic financial statements, and the notes to those financial statements.

FINANCIAL HIGHLIGHTS

Factors to consider when reading the financial statements:

- Net assets declined by $6.2 million, from $92.1 million in 2010 to $86.0 million in 2011. Although results of operations were strong with net earnings of $19.7 million, distributions to member districts increased $22.5 million to $25.9 million.
- For every dollar in current liabilities, the Project holds $16.16 in current assets, down from $18.98 in 2010. The decline is primarily due to the increase in distributions to member districts.
- Operating revenues increased from $19.3 million in 2010 to $24.9 million in 2011, reflecting increased energy generation revenues.
- Operating expenses of $8.7 million in 2011 represent a $236,000 increase from 2010, primarily due to increased power marketing costs and maintenance expense, partially offset by a reduction in general and administrative expense and operating expense.
- Non-operating revenues declined $176,000 to $440,000 in 2011, primarily due to lower investment earnings and reduced reimbursements from other governmental organizations.
- The Project made significant progress on the Tulloch third generating unit which is nearing completion.

FINANCIAL ANALYSIS OF THE PROJECT

This discussion and analysis is intended to serve as an introduction to the Project's 1) Basic Financial Statements, 2) Other Supplementary Information, and 3) Compliance Report.

Basic Financial Statements

This section includes the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Basic Financial Statements. The Statement of Net Assets details the changes in net assets due to increases / decreases in assets and liabilities. Increases or decreases in net assets are a potential indicator of financial strength when analyzed over a period of years. The Statement of Revenues, Expenses, and Changes in Net Assets provide information relating to the revenues, expenses, and subsequent changes in net assets for the fiscal year reported. The Statement of Cash Flows breaks down the sources and uses of cash by activity. The notes to the financial statements are a crucial part of the financial statements as they provide a narrative on the trends and outlook behind the numbers, as well as supplementary information that should be considered when analyzing the data. The notes to the financial statements begin on page 11.

FINANCIAL ANALYSIS OF THE PROJECT

The financial data contained herein reflects the audited 2011 and 2010 financial results.

STATEMENT OF NET ASSETS

Net Assets

As previously mentioned, net assets can be an indicator of the financial strength of an organization. The Project's assets exceeded liabilities by $86.0 million at December 31, 2011, a decline of $6.2 million from 2010, including a decline of $12.4 million in unrestricted net assets. However, the decline in net assets during 2011 was attributable to discretionary distributions to member districts and not a result of deteriorating results of operations. Specifically, the Project's change in net assets (net profit before distributions) improved by $1.6 million during 2011. On an operating basis, the improvement was even greater, with net profit from operations increasing by $5.3 million during 2011.

The two components of the Project's net assets were 1) investment in capital assets of $58.7 million, and 2) unrestricted net assets of $27.3 million. Net assets invested in capital assets represent the Project's investment in capital assets that will be eliminated with depreciation, other than land and construction in progress. Assets classified as construction in progress will be depreciated once construction is complete and the assets are placed into service. See the capital assets section in the notes to the financial statements for more information on the changes in this component of net assets. Capital assets provide the Project with the ability to continue operations and do not represent liquid assets that could be used to pay future obligations. Unrestricted net assets represent the remainder of net assets. Unrestricted net assets decreased due to distributions to member districts of $25.9 million, substantially offset by net profit of $19.7 million.

The Project does not have any designated fund balances 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 minimums are in place to ensure proper reserve balances exist in the event of a system failure or to fund future projects. Currently the Project is utilizing reserve funds to finance the addition of a third generating unit at Tulloch Dam. See Note I for more information related to the construction of this unit.

The following table illustrates the Project's condensed statement of net assets for 2011, 2010 and 2009.

Condensed Statement of Net Assets

	2011	2010	Increase (Decrease)	2009	Increase (Decrease)
Assets					
Current Assets	$ 26,299,621	$ 38,858,913	$ (12,559,292)	$ 34,017,019	$ 4,841,894
Noncurrent Assets	2,825,389	2,908,489	(83,100)	3,126,124	(217,635)
Capital Assets	58,658,721	52,473,923	6,184,798	42,420,349	10,053,574
Total Assets	$ 87,783,731	$ 94,241,325	$ (6,457,594)	$ 79,563,492	$ 14,677,833
Liabilities					
Current and Other Liabilities	$ 1,627,290	$ 2,047,586	$ (420,296)	$ 2,095,960	$ (48,374)
Long-Term Liabilities	180,837	45,141	135,696	20,045	25,096
Total Liabilities	1,808,127	2,092,727	(284,600)	2,116,005	(23,278)
Net Assets					
Invested in Capital Assets	58,658,721	52,473,923	6,184,798	42,420,349	10,053,574
Unrestricted	27,316,883	39,674,675	(12,357,792)	35,027,138	4,647,537
Total Net Assets	85,975,604	92,148,598	(6,172,994)	77,447,487	14,701,111
Total Liabilities and Net Assets	$ 87,783,731	$ 94,241,325	$ (6,457,594)	$ 79,563,492	$ 14,677,833

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

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

Liabilities

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Net Assets captures the assets, liabilities, and net assets at a specific point in time while the Statement of Revenues, Expenses, and Changes in Net Assets details the results of operations for the current year.

	Condensed Statement of Revenues, Expenses and Changes in Net Assets				
	2011	2010	Increase (Decrease)	2009	Increase (Decrease)
Operating Revenues	$ 24,900,195	$ 19,322,875	$ 5,577,320	$ 17,580,837	$ 1,742,038
Operating Expenses	8,712,926	8,477,120	235,806	7,637,794	839,326
Net Profit from Operations	16,187,269	10,845,755	5,341,514	9,943,043	902,712
Nonoperating Revenues (Expenses):					
Invesment Earnings	41,655	106,168	(64,513)	408,615	(302,447)
Water Sales	114,902	109,804	5,098	103,481	6,323
Rental of Equipment and Facilities	51,270	61,037	(9,767)	45,041	15,996
Gain on sale of assets	34,546	--	34,546	--	--
Other nonoperating revenues	38,564	77,860	(39,296)	40,451	37,409
Reimbursements	159,028	261,092	(102,064)	262,652	(1,560)
Total Non-Operating Revenues (Expenses)	439,965	615,961	(175,996)	860,240	(244,279)
Extraordinary item - business interruption insurance	3,110,000	6,639,395	(3,529,395)	--	6,639,395
Change in Net Assets	19,737,234	18,101,111	1,636,123	10,803,283	7,297,828
Net Assets, Beginning of Year	92,148,598	77,447,487	14,701,111	79,644,204	(2,196,717)
Less: Distributions to Districts	(25,910,228)	(3,400,000)	(22,510,228)	(13,000,000)	9,600,000
Net Assets, End of Year	$ 85,975,604	$ 92,148,598	$ (6,172,994)	$ 77,447,487	$ 14,701,111

Revenues

Total revenues increased $5.4 million in 2011 to $25.3 million. The increase in revenues was almost entirely due to improved rainfall and snow depths and the resulting increase in power generation. In addition, an extraordinary item in the amount of $3.1 million was received for a business interruption loss due to the Donnells generator outage. See Note I for a more in-depth discussion of the generator outage.

Investment earnings again decreased during 2011, declining by $65,000, to $42,000. Lower levels of investable funds, continued low market yields, and a somewhat more conservative investment strategy led to the lower level of investment income. The lower level of investable funds throughout 2011 is a result of the use of cash to fund the construction of the Tulloch third generating unit and the significant increase in member distributions.

Operating Expenses

Operating expenses increased $236,000 in 2011. This increase was primarily due to an increase in power marketing costs, wage increases of 4% in March of 2011, and increased depreciation expense resulting from new capital assets being placed in service. The increase in operating expenses was partially offset by various staff vacancies throughout the year. Refer to the Other Supplementary Information section for a detailed breakdown of operating expenses by facility, including a comparison of 2011 and 2010 wages, benefits and other expenses by activity and category.

The Memorandum of Understanding with the union expires in March 2012 and negotiations relating to compensation, benefits and other labor matters are ongoing. In addition, the Project anticipates substantial costs during 2012 for Forest Service recreation improvements as part of the Project's FERC license conditions. See Note I for a further discussion related to Forest Service recreation improvements.

Changes in Net Assets

The change in net assets (net income) increased $1.6 million, or 9.0% in 2011. As previously discussed, significantly improved power generation revenue due to above-normal precipitation was the primary reason for the increase. The improvement in power generation revenue was partially offset by a $176,000 reduction in non-operating revenues, a $236,000 increase in operating expenses, and a $3.5 million lower extraordinary item related to insurance proceeds. Member distributions increased by $22.5 million, resulting in a decline in net assets after distributions (net worth) of $6.2 million.

CAPITAL ASSETS

At the close of 2011, the Project's investment in capital assets (net of accumulated depreciation) increased $6.2 million to $58.7 million, from $52.5 million at the end of 2010. Capital asset categories are land; construction in progress; dams and power plants; water wheels, turbines and generators; power plant equipment; telemetry equipment; buildings; and other equipment. The largest increase was $4.2 million in construction in progress, of which $6.2 million was used for the Tulloch third generating unit, netted against $1.2 million and $1.3 million transferred out of construction in progress due to the restored Donnells generator and a new transformer being placed in service, respectively. The remainder of the change in construction in progress related to several small projects. Power plant equipment also increased an additional $374,000 due to necessary equipment upgrades and replacement.

	2011	2010	Increase (Decrease)
Land	$ 196,313	$ 196,313	$ -
Construction in progress	24,096,789	19,851,209	4,245,580
Dam and power plants	52,591,573	52,550,700	40,873
Water wheels, turbines and generators	8,489,696	7,251,627	1,238,069
Power plant equipment	5,348,179	3,636,054	1,712,125
Telemetry equipment	3,039,218	3,013,225	25,993
Buildings	951,953	951,953	-
Other equipment	2,731,537	2,607,075	124,462
Total Capital Assets	97,445,258	90,058,156	7,387,102
Less:accumulated depreciation	(38,786,537)	(37,584,233)	(1,202,304)
Net Capital Assets	$ 58,658,721	$ 52,473,923	$ 6,184,798

Note C contains additional information regarding capital assets.

ECONOMIC FACTORS AND THE FUTURE

General economic conditions are expected to remain weak in 2012. When combined with an increased supply of competing energy sources such as natural gas and other renewable energy, electricity prices are expected to remain low throughout the year. Moreover, snow depths are well below average levels, which could negatively impact energy generation unless conditions improve during the spring. Accordingly, it is reasonable to expect a reduction in power generation revenue during 2012. However, it is anticipated that the Tulloch third generating unit will come online before mid-year, which should partially offset the negative economic and weather-related conditions.

Expenses for 2012 are budgeted to increase as staff vacancies have been filled, the Tulloch third generating unit begins to be depreciated, and regulatory and related costs increase.

Reserves and current cash flows will be utilized to fund all capital projects with the expectation that no debt financing will be required. Reserve balances will be replenished over the course of several years, following completion of the Tulloch third generating unit.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Project's finances. Questions concerning the information provided in this report or requests for additional financial 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

STATEMENTS OF NET ASSETS

December 31, 2011 and 2010

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 20,906,257	$ 29,170,299
Investments	2,007,181	5,352,668
Accounts receivable:		
Headwater benefit fees, PG&E	312,201	306,063
Power generation, Shell Energy North America	2,626,057	3,226,561
Insurance claim		313,446
Services receivable, Tri-Dam Power Authority	60,746	102,429
Other	206,957	213,371
Accrued interest receivable	30,575	61,740
Prepaid expenses and other assets	149,647	112,336
Total Current Assets	26,299,621	38,858,913
Noncurrent Assets		
Capital Assets		
Not depreciated	24,293,102	20,047,522
Depreciated, net	34,365,619	32,426,401
Total Capital Assets	58,658,721	52,473,923
Other Noncurrent Assets		
Federal Energy Regulatory Commission (FERC) Relicensing costs	3,323,989	3,323,989
Accumulated amortization	(498,600)	(415,500)
Total Unamortized FERC Relicensing Costs	2,825,389	2,908,489
Total Noncurrent Assets	61,484,110	55,382,412
TOTAL ASSETS	$ 87,783,731	$ 94,241,325
LIABILITIES		
Current Liabilities		
Accounts payable	$ 1,133,877	$ 1,185,694
Accrued salaries and benefits	94,019	106,831
Unearned revenues	30,555	387,926
Deposits	55,911	55,911
Due to the Federal Energy Regulatory Commission	90,000	90,000
Compensated absences, current portion	222,928	221,224
Total Current Liabilities	1,627,290	2,047,586
Noncurrent Liabilities		
Compensated absences, noncurrent portion	152,756	36,013
OPEB liability	28,081	9,128
Total Noncurrent Liabilities	180,837	45,141
TOTAL LIABILITIES	1,808,127	2,092,727
NET ASSETS		
Invested in capital assets	58,658,721	52,473,923
Unrestricted	27,316,883	39,674,675
TOTAL NET ASSETS	85,975,604	92,148,598
TOTAL LIABILITIES AND NET ASSETS	$ 87,783,731	$ 94,241,325

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

TRI-DAM PROJECT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Power generation revenues	$ 24,519,128	$ 19,085,399
Headwater benefit fees	381,067	237,476
Total Operating Revenues	24,900,195	19,322,875
Operating Expenses		
Operations	1,321,098	1,440,582
Maintenance	1,325,937	1,144,849
General and administrative	3,670,862	3,795,375
Power generation marketing	1,109,625	858,922
Depreciation and amortization	1,285,404	1,237,392
Total Operating Expenses	8,712,926	8,477,120
NET INCOME FROM OPERATIONS	16,187,269	10,845,755
Nonoperating Revenues		
Investment earnings	41,655	106,168
Water sales	114,902	109,804
Rental of equipment and facilities	51,270	61,037
Gain on disposal of capital assets	34,546	
Other nonoperating revenue	38,564	77,860
Reimbursements	159,028	261,092
Total Nonoperating Revenues	439,965	615,961
Extraordinary item - business interruption insurance proceeds	3,110,000	6,639,395
CHANGE IN NET ASSETS	19,737,234	18,101,111
Net Assets, Beginning of Year	92,148,598	77,447,487
Less: Distributions to Member Districts	(25,910,228)	(3,400,000)
NET ASSETS, END OF YEAR	$ 85,975,604	$ 92,148,598

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

TRI-DAM PROJECT

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	$ 25,119,632	$ 16,691,838
Other operating receipts	372,687	247,103
Cash payments to employees for services	(1,526,274)	(1,702,833)
Cash payments to suppliers for goods and services	(5,865,788)	(5,388,452)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,100,257	9,847,656
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Member Districts	(25,910,228)	(3,400,000)
Extraordinary item - business interruption insurance proceeds	3,110,000	12,026,486
Other nonoperating revenues received	370,178	505,340
NET CASH (USED) PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(22,430,050)	9,131,826
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(7,387,102)	(14,790,558)
Proceeds from disposal of capital assets	34,546	
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(7,352,556)	(14,790,558)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities		(21,589,342)
Proceed from sales of investment securities	3,265,000	31,685,318
Interest received	153,307	188,783
NET CASH PROVIDED BY INVESING ACTIVITIES	3,418,307	10,284,759
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,264,042)	14,473,683
Cash and cash equivalents - beginning of year	29,170,299	14,696,616
CASH AND CASH EQUIVALENTS- END OF YEAR	$ 20,906,257	$ 29,170,299
Reconciliation of net income from operations to net cash provided by operating activities:		
Net income from operations	$ 16,187,269	$ 10,845,755
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,285,404	1,237,392
Changes in operating assets and liabilities:		
Decrease (increase) in power generation receivable	600,504	(2,393,561)
Decrease (increase) in other receivables	35,545	9,627
Decrease (increase) in prepaid expenses and other assets	(37,311)	548,707
Increase (decrease) in accounts payable	(51,817)	773,894
Decrease (increase) in accrued salaries and benefits	(12,812)	
Increase (decrease) in other liabilities	(43,925)	742
Increase (decrease) in bank overdraft		(1,288,958)
Increase (decrease) in compensated absences	118,447	114,058
Increase (decrease) in OPEB liability	18,953	
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 18,100,257	$ 9,847,656
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Change in the unrealized loss on investments	$ (25,831)	$ (112,643)

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. As allowed by the GASB, the Project has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989. The more significant of the Project's accounting policies are described below.

Reporting Entity: The Tri-Dam Project is a joint venture of the Oakdale Irrigation District and the South San Joaquin Irrigation District (the Member Districts) entered into under a joint cooperation agreement on January 21, 1948. The Project is an organization that is jointly governed by the Member Districts and is not organized as a separate public agency according to State regulations. The Member Districts each retain their one-half interest in the assets and liabilities of the Project. The Project consists of irrigation and power development on the Middle-Fork of the Stanislaus River, including the Donnells dam, tunnel, power plant, Beardsley dam, reservoir and power plant, Tulloch dam, reservoir and power plant, Goodwin dam, reservoir and several ancillary facilities. The Project's principal activities are the storage and delivery of water to the Districts and the hydraulic generation of electricity. These activities are carried out pursuant to the Districts' water rights and the Districts' licenses issued by the Federal Energy Regulatory Commission (FERC). The Project has 660,000 acre feet of water rights on the Stanislaus River.

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

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

Basis of Presentation – Fund Accounting: The Project's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. A fund is a self-balancing set of accounts. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represent 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 and all liabilities associated with the operation of this fund are included on the statement of net assets. Net assets are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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.

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

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. Non-operating 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.

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

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

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

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

Accounts Receivable: Trade accounts receivable are carried at net realizable values. The Project records power generation receivables for energy deliveries to Shell Energy North America (SENA) and certain energy-related amounts due from Pacific Gas and Electric Company (PG&E). The Project has determined that an allowance for doubtful accounts was not necessary at December 31, 2011.

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, powerplants and improvements	10-99
Water wheel, turbines and generators	10-99
Powerplant equipment	5-99
Telemetry equipment	5-99
Buildings	10-50
Other equipment	5-50

It is the Project's policy to capitalize all capital assets with a cost of $5,000 or more. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Other Assets – Capitalized Relicensing Costs: The Project completed the process in 2005 of applying for license renewals from the Federal Energy Regulatory Commission (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.

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

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

Unearned Revenues: Unearned revenues arise when resources are received before the Project has a legal claim to them. Unearned revenues at December 31, 2011 consisted mainly of $23,555 of stream gaging revenue for 2012 received from Stockton East Water District. Unearned revenues at December 31, 2010 consisted mainly of $13,554 of stream gaging revenue for 2011 received from Stockton East Water District, a headwater benefit assessment of $50,909 received from PG&E during 2010 for the period ending February 2011 and an insurance payment for the Donnells generator replacement project of $313,446 received in March 2011 for a loss prior to year-end that was accrued and deferred due to a dispute over the amount of the reimbursement. See Note I for more information on the insurance proceeds for the Donnells project.

Compensated Absences: The Project's Memorandum of Understanding (MOU) with employees allows employees to accumulate unused vacation and sick leave, subject to policy limits. Vacation is earned at the rate of 80 to 168 hours per year, depending upon the number of years of service. Sick leave is earned at the rate of 96 hours per year after the first year of service. All unused vacation and 25% of unused sick leave is paid upon separation. The liability for these compensated absences is recorded as a long-term liability in the statement of net assets. 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 Assets: The government-wide financial statements present net assets. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Assets – 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 statement of net assets.

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

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

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

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

Extraordinary Income: During 2009, the Donnells generator went out of operation and needed to be replaced, as discussed in Note I. The Project received $3,110,000 and $6,639,395 of business interruption insurance proceeds during 2011 and 2010, respectively. This event met the criteria to be reported as an extraordinary gain in the statement of revenues, expenses and changes in net assets.

Risk Management: The Project is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The commercial insurance is subject to a deductible. No significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended December 31, 2011 and 2010. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from the prior year.

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

Reclassifications: Certain reclassifications have been made to the 2010 financial statements to conform to the current presentation. These reclassifications had no effect on previously reported change in net assets.

New Pronouncements: In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows and inflows of resources, which Concepts Statement No. 4 introduced and defined those elements as consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement amends the net assets reporting requirements of Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and by renaming that measure as net position, rather than net assets. This Statement will require the Project to reassess the reporting of deferred inflows and outflows to which this Statement is applicable. The provisions of this Statement are effective for periods beginning after December 15, 2011.

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

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:

	2011	2010
Cash and cash equivalents		
Cash on hand	$ 300	$ 300
Deposits with financial institutions	8,688,345	2,547,881
Money market mutual funds	12,211,968	26,616,507
Deposits in Local Agency Investment Fund (LAIF)	5,644	5,611
Total cash and cash equivalents	20,906,257	29,170,299
Investments		
Investments held by Union Bank	2,007,181	5,352,668
Total investments	2,007,181	5,352,668
Total cash and investments	$ 22,913,438	$ 34,522,967

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

	2011	2010
Cash and cash equivalents		
Cash on hand	$ 300	$ 300
Deposits with financial institutions	8,688,345	2,547,881
Total cash and deposits	8,688,645	2,548,181
Banker's acceptances		249,948
Commercial paper		954,899
Medium corporate term notes	2,007,181	4,147,821
Money market mutual funds	12,211,968	26,616,507
Local Agency Investment Fund (LAIF)	5,644	5,611
Total investments	14,224,793	31,974,786
Total cash and investments	$ 22,913,438	$ 34,522,967

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	None	None
Medium term corporate notes	5 years	30%	None
Money market mutual funds	N/A	20%	10%
LAIF	N/A	None	None

The Project complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements, with the exception of the investment in the Highmark Treasury Plus money market mutual fund exceeding the 10% maximum investment in one issuer and 20% maximum percentage of the portfolio limits above. The Project will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

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

Information about the sensitivity of the fair values of the Project's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Project's investments by maturity at December 31, 2011:

		Remaining Maturity
	Total	12 Months or Less
Medium term corporate notes	$ 2,007,181	$ 2,007,181
Money market mutual funds	12,211,968	12,211,968
LAIF	5,644	5,644
Total	$ 14,224,793	$ 14,224,793

NOTE B – CASH AND INVESTMENTS (Continued)

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

		Minimum	Ratings as of Year End		
	Total	Legal Rating	AAA/AA+	A1/A-	Not Rated
Medium term corporate notes	$ 2,007,181	A	$ 1,005,861	$1,001,320	
Money market mutual funds	12,211,968	AAA/Aaa	12,211,968		
LAIF	5,644	N/A			$ 5,644
	$14,224,793		$13,217,829	$1,001,320	$ 5,644

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. Investments with one issuer exceeding 5% of total investments at December 31, 2011 include the Project's investment in Goldman Sachs Group, Inc. corporate notes in the amount of $1,001,320 and JP Morgan Chase & Co. corporate notes in the amount of $1,005,861. There were no concentrations of investments at December 31, 2010.

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, 2011 and 2010, the carrying amount of the Project's deposits were $8,688,345 and $2,547,881 and the balances in financial institutions were $8,819,195 and $2,559,314, respectively. All of the balances in financial institutions were covered by federal depository insurance or assets pledged by the financial institution at December 31, 2011.

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total amount invested on December 31, 2011 by all public agencies in LAIF is $68,012,877,285 and is managed by the State Treasurer. Of that amount, 94.0% is invested in non-derivative financial products and 6.0% 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, 2011	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2011
Capital assets, not being depreciated:					
Land	$ 196,313				$ 196,313
Construction in progress	19,851,209	$ 6,877,275		$(2,631,695)	24,096,789
Total capital assets not being depreciated	20,047,522	6,877,275		(2,631,695)	24,293,102
Capital assets, being depreciated:					
Dam and power plants	52,550,700	40,873			52,591,573
Water wheels, turbines and generators	7,251,627	5,345		1,232,724	8,489,696
Power plant equipment	3,636,054	374,111		1,338,014	5,348,179
Telemetry equipment	3,013,225	25,993			3,039,218
Buildings	951,953				951,953
Other equipment	2,607,075	63,505		60,957	2,731,537
Total capital assets being depreciated	70,010,634	509,827		2,631,695	73,152,156
Accumulated depreciation:					
Dam and power plants	(30,849,562)	(480,671)			(31,330,233)
Water wheels, turbines and generators	(2,019,829)	(194,514)			(2,214,343)
Power plant equipment	(1,034,272)	(149,027)			(1,183,299)
Telemetry equipment	(1,466,010)	(107,756)			(1,573,766)
Buildings	(608,206)	(26,411)			(634,617)
Other equipment	(1,606,354)	(243,925)			(1,850,279)
Total accumulated depreciation	(37,584,233)	(1,202,304)			(38,786,537)
Total capital assets being depreciated, net	32,426,401	(692,477)		2,631,695	34,365,619
Capital assets, net	$ 52,473,923	$ 6,184,798	$ -	$ -	$ 58,658,721

NOTE C – CAPITAL ASSETS (Continued)

	Balance at January 1, 2010	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2010
Capital assets, not being depreciated:					
Land	$ 196,313				$ 196,313
Construction in progress	9,668,606	$10,231,638		$ (49,035)	19,851,209
Total capital assets not being depreciated	9,864,919	10,231,638		(49,035)	20,047,522
Capital assets, being depreciated:					
Dam and power plants	52,550,701	15,274	$ (15,275)		52,550,700
Water wheels, turbines and generators	7,250,899	728			7,251,627
Power plant equipment	2,988,145	598,874		49,035	3,636,054
Telemetry equipment	2,986,427	26,798			3,013,225
Buildings	923,398	28,555			951,953
Other equipment	2,439,749	186,739	(19,413)		2,607,075
Total capital assets being depreciated	69,139,319	856,968	(34,688)	49,035	70,010,634
Accumulated depreciation:					
Dam and power plants	(30,369,025)	(480,537)			(30,849,562)
Water wheels, turbines and generators	(1,842,014)	(177,815)			(2,019,829)
Power plant equipment	(989,637)	(44,635)			(1,034,272)
Telemetry equipment	(1,437,240)	(28,770)			(1,466,010)
Buildings	(583,544)	(24,662)			(608,206)
Other equipment	(1,362,429)	(263,338)	19,413		(1,606,354)
Total accumulated depreciation	(36,583,889)	(1,019,757)	19,413		(37,584,233)
Total capital assets being depreciated, net	32,555,430	(162,789)	(15,275)	49,035	32,426,401
Capital assets, net	$42,420,349	$10,068,849	$ (15,275)	$ -	$52,473,923

Construction in progress included approximately $24 million and $17.8 million at December 31, 2011 and 2010 for the addition of a third generator unit at Tulloch Reservoir to augment the two existing units. A contract for the second and final phase was awarded in 2009 and work will continue through the spring of 2012, when the project is expected to be completed. The remaining cost to complete this project is included in the commitments paragraph of Note I. This project is being financed from existing reserves and future cash flows.

NOTE D – LONG-TERM LIABILITIES

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

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

NOTE D – LONG-TERM LIABILITIES

	Balance at January 1, 2010	Additions	Repayments	Balance at December 31, 2010	Due within One Year
Compensated absences	$ 143,179	$ 235,722	$ (121,664)	$ 257,237	$ 221,224
OPEB liability		27,121	(17,993)	9,128	
	$ 143,179	$ 262,843	$ (139,657)	$ 266,365	$ 221,224

Letter of Credit: The Project was required by PG&E to have a letter of credit of $500,000 with Oak Valley Community Bank to ensure the Project has the resources to reimburse costs incurred by PG&E on the third generator unit project at Tulloch Reservoir. The letter of credit has never been used by the Project and matures in December 2012. The interest rate that the Project would be subject to under the letter at December 31, 2011 is 7.25% and the line of credit would be collateralized by a bank deposit account should it be used.

NOTE E – NET ASSETS

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

	2011	2010
Maintenance reserve	$ 2,000,000	
Operating reserve	6,000,000	$ 6,000,000
Insurance reserve	4,700,000	4,600,000
Total designated net assets	$ 12,700,000	$ 10,600,000

The maintenance reserve at December 31, 2010 was approved by the Board to be used for the third generator unit project at Tulloch Reservoir. The resolution establishing the maintenance and insurance reserves provide for increases the reserve each year by an amount equal to the change in the Consumer Price Index (CPI), rounded to the nearest $50,000. The operating reserve does not have a provision to increase the reserve based on the CPI.

NOTE F – DISTRIBUTIONS TO MEMBER DISTRICTS

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

	2011	2010
Oakdale Irrigation District	$ 12,955,114	$ 1,700,000
South San Joaquin Irrigation District	12,955,114	1,700,000
Total Distributions to Member Districts	$ 25,910,228	$ 3,400,000

NOTE G – EMPLOYEES' RETIREMENT PLAN

Plan Description: The Project contributes to the California Public Employees Retirement System (PERS), a cost-sharing agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. All full and part time Project employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. The project is a member of the Miscellaneous 2.5% at 55 Risk Pool. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy: Active plan members are required to contribute 8% of their annual covered salary, which is shared between the Project and the employees. The Project agrees to contribute approximately 5.7% of the employee's contribution and the employees contribute approximately 2.3% as specified in the related MOU. Contributions made on behalf of Project employees total $109,396 and $98,003 for the years ended December 31, 2011 and 2010, respectively. The Project is also required to contribute at an actuarially determined rate: the rate for January 1 to June 30, 2010 was 9.790%, the rate for July 1, 2010 to June 30, 2011 was 10.263%, and the rate from July 1 to December 31, 2011 was 13.353%. The contribution requirements of plan members and the Project are established and may be amended by PERS. The Project's total contributions for years ended December 31, 2011, 2010, and 2009 were $325,698, $261,984 and $254,031, respectively.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The Project's other postemployment benefits (OPEB) plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Project. The Plan provides healthcare insurance coverage for eligible retirees through the Project's group medical insurance plan, which covers both active and retired participants. Employees are eligible to participate in the Plan if they have ten years of continuous service, attain age 55 and retire directly from the Project. Since premiums are determined for active employees and retirees on a combined basis, an implied subsidy must be reflected under GASB 45. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the Project and its employees as approved by the Commissioners. The Plan provides that the Project will continue to provide retired employees group medical coverage and that retired employees will reimburse the Project for one-half of their health insurance costs for up to ten years of benefits. At age 65 the retired employee is dropped from coverage and becomes eligible to participate in the federal government's Medicare insurance program.

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

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

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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

	2011	2010
Annual required contribution (ARC)	$ 37,807	$ 26,638
Interest on net OPEB obligation	549	483
Adjustment to annual required contribuion		
Annual OPEB cost (expense)	38,356	27,121
Contributions made	(19,403)	(17,993)
Increase in net OPEB obligation	18,953	9,128
Net OPEB obligation beginning of year	9,128	
Net OPEB obligation (asset) - end of year	$ 28,081	$ 9,128

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, 2009	$ 10,504	100.00%	$ -
December 31, 2010	27,121	66.34%	9,128
December 31, 2011	38,356	50.59%	28,081

Funded Status and Funding Progress: As of December 31, 2011, the Plan was not funded. The Plan operates on a pay-as-you go basis.

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

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

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

For the December 31, 2011 and 2010 valuations, the Project elected to use the alternative measurement method as allowed under Governmental Accounting Standards Board Statement No. 45. The Project computed its ARC using the unit cost credit method with UAAL amortized as a level dollar amount. The actuarial assumptions include health premium increases of 4.0% to 9.4% in 2011 and 4.1% to 4.9% in 2010 and the following assumptions for both 2011 and 2010: a 4.0% investment rate of return, an average retirement age of 60, a 94% to 100% probability of remaining employed until retirement and an average life expectancy of more than 65 years. The initial UAAL was amortized as a level dollar amount over a fixed 29 and 30-year period as of June 30, 2011 and 2010, respectively.

The following table represents required supplementary information for the Plan. Information for 2008 and 2009 was not available.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (b)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2010	$ -	$ 216,958	$ 216,958	0.00%	$ 1,636,250	13.26%
December 31, 2011	-	283,043	283,043	0.00%	1,650,862	17.15%

NOTE I – CONTINGENCIES AND COMMITMENTS

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

Donnells Generator Replacement Project: In 2009, the generator at Donnells power plant went out of operation and had to be replaced. The replacement of the generator was completed during 2010. The Project lost a significant amount of power generation revenue during the period the generator was out of operation and incurred a significant amount of costs to replace the generator. The Project was insured for the replacement of the generator and for the business interruption that resulted in the loss of power generation revenues. During 2010, the Project received insurance proceeds in the amount of $5,387,091 to reimburse the Project for generator replacement costs and $6,639,395 of business interruption insurance. In 2011, a final settlement was reached between the Project and the insurer.

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

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.

Commitments: The Project had outstanding construction commitments for the addition of a third generator unit at Tulloch Reservoir to augment the two existing units of $2,466,830 and $7,949,107 at December 31, 2011 and 2010, respectively. The commitments represent contract commitments to numerous contractors and the project manager. The project is expected to be completed and placed into operation in 2012. The Project also has a contract commitment with a consultant of $100,000 to perform the scoping phase of the Project's strategic plan.

FERC License Renewal Commitment: The Project is currently negotiating with the USDA, Forest Service for a collection agreement to construct recreation facilities at Beardsley and Donnells Reservoirs as part of the recreation implementation plan required as part of the approval of the Project's FERC license. The USDA, Forest Service would construct improvements to campgrounds, day use areas and a boat ramp under the agreement, which is expected to total $7,754,064 under preliminary estimates by the USDA, Forest Service. The USDA, Forest Service is requesting significant up front funding by the Project before starting construction, which is currently being negotiated. The Project has been awarded a grant of $1.6 million from the California Department of Boating and Waterways to assist with the reconstruction of the boat launch at Beardsley Reservoir.

OTHER SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT

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

December 31, 2011 and 2010

	2011	2010
Donnells Facility:		
Operations		
Supervision wages and benefits	$ 24,496	$ 75,102
Hydraulic wages and benefits	6,045	5,559
Electric wages and benefits	212,935	234,878
Other wages and benefits	55,599	42,352
Supplies and materials	7,485	3,488
Total Operations	306,560	361,379
Maintenance		
Supervision wages and benefits	37,218	38,223
Structures wages and benefits	10,630	20,457
Reservoirs and dams wages and benefits	17,991	20,540
Electrical plant wages and benefits	96,212	99,887
Other wages and benefits	22,190	19,995
High voltage wages and benefits	1,811	25,723
Communications and security wages and benefits	12,662	14,946
Supplies and materials	57,241	55,208
Total Maintenance	255,955	294,979
General and Administrative		
Other		501
Power generation marketing	609,247	408,985
Total Donnells Facility	1,171,762	1,065,844
Beardsley Facility:		
Operations		
Supervision wages and benefits	22,654	25,789
Hydraulic wages and benefits	23,034	27,738
Electric wages and benefits	177,441	177,859
Other wages and benefits	62,140	39,051
Supplies and materials	6,272	2,340
Total Operations	291,541	272,777
Maintenance		
Supervision wages and benefits	142,435	19,084
Structures wages and benefits	26,888	21,529
Reservoirs and dams wages and benefits	12,540	29,649
Electrical plant wages and benefits	56,614	50,713
Other wages and benefits	8,727	18,482
High voltage wages and benefits	2,737	5,204
Communications and security wages and benefits	11,714	20,437
Supplies and materials	34,656	45,967
Total Maintenance	296,311	211,065

TRI-DAM PROJECT

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

December 31, 2011 and 2010

	2011	2010
General and Administrative		
Other wages and benefits	$ 6,387	$ 194
USFS resource management support	8,257	13,528
Other		7,541
Total General & Administrative	14,644	21,263
Power generation marketing	197,543	153,164
Total Beardsley Facility	800,039	658,269
Tulloch Facility:		
Operations		
Supervision wages and benefits	56,076	25,185
Hydraulic wages and benefits	34,597	61,564
Electric wages and benefits	224,994	220,657
Other wages and benefits	23,609	15,229
Supplies and materials	5,903	4,886
Total Operations	345,179	327,521
Maintenance		
Supervision wages and benefits	78,822	39,517
Structures wages and benefits	8,826	9,227
Reservoirs and dams wages and benefits	29,122	23,261
Electrical plant wages and benefits	130,464	127,615
Other wages and benefits	12,377	16,275
High voltage wages and benefits	6,456	14,045
Communications and security wages and benefits	11,584	13,345
Supplies and materials	68,180	61,062
Total Maintenance	345,831	304,347
General and Administrative		
Headwater benefit assessment	90,247	90,247
Other	3,604	14,723
Total General and Administrative	93,851	104,970
Power generation marketing	302,835	296,773
Total Tulloch Facility	1,087,696	1,033,611
Goodwin Facility:		
Operations		
Supervision wages and benefits	19,799	47,894
Hydraulic wages and benefits	19,547	26,809
Electric wages and benefits	105,147	101,680
Supplies and materials	1,511	3,312
Total Operations	146,004	179,695

TRI-DAM PROJECT

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

December 31, 2011 and 2010

	2011	2010
Maintenance		
Supervision wages and benefits	$ 1,627	$ 765
Reservoirs and dams wages and benefits	5,865	7,658
Other wages and benefits	17,059	4,733
Communications and security wages and benefits	1,386	3,325
Supplies and materials	2,530	
Total Maintenance	28,467	16,481
General and Administrative		
Administrative wages and benefits	12,535	14,976
Contract Services	2,576	2,344
Property insurance	4,883	8,507
Dam safety fees	11,593	11,593
Streamgaging	47,933	64,528
Other	2	2,400
Total General & Administrative	81,920	104,348
Total Goodwin Facility	256,391	300,524
Mt Elizabeth Facility:		
Operations		
Supplies and materials	9,938	12,261
Maintenance		
Supervision wages and benefits	2,319	
Structures wages and benefits	830	503
Other wages and benefits	2,760	7,676
Communications and security wages and benefits	7,909	13,327
Supplies and materials	5,660	1,146
Total Maintenance	19,478	22,652
Total Mt. Elizabeth Facility	29,416	34,913
Strawberry Peak Facility:		
Operations		
Supplies and materials	7,394	5,934
Maintenance		
Supervision wages and benefits	787	26
Structures wages and benefits	661	1,206
Other wages and benefits	2,708	7,520
Communications and security wages and benefits	8,363	17,883
Supplies and materials	8,424	2,811
Total Maintenance	20,943	29,446
Total Strawberry Peak	28,337	35,380

TRI-DAM PROJECT

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

December 31, 2011 and 2010

	2011	2010
Operations Center:		
Operations		
Supervision wages and benefits	$ 19,869	$ 24,498
Hydraulic wages and benefits		233
Electric wages and benefits	42,339	100,368
Supplies and materials	7,013	2,838
Total Operations	69,221	127,937
Maintenance		
Supervision wages and benefits	938	3,170
Structures wages and benefits	663	918
Other wages and benefits	1,355	78
Communications and security wages and benefits	35,934	29,929
Supplies and materials	4,162	3,453
Total Maintenance	43,052	37,548
Total Operations Center	112,273	165,485
Service Center Facilities:		
Operations		
Hydraulic wages and benefits		1,106
Other wages and benefits		127
Total Operations		1,233
Maintenance		
Supervision wages and benefits		6,719
Structures wages and benefits	645	6,363
Other wages and benefits	111	
Communications and security wages and benefits		194
Supplies and materials	291,725	200,532
Total Maintenance	292,481	213,808
Total Service Center	292,481	215,041
Division Point Facility:		
Operations		
Supervision wages and benefits	20,584	24,584
Hyrdraulic wages and benefits	19,527	24,555
Electric wages and benefits	103,749	101,268
Supplies and materials	1,401	1,438
Total Operations	145,261	151,845

TRI-DAM PROJECT

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

December 31, 2011 and 2010

	2011	2010
Maintenance		
Supervision wages and benefits		$ 1,904
Structures wages and benefits		1,304
Reservoirs and dams wages and benefits	$ 882	104
Other wages and benefits	3,918	4,965
Communications and security wages and benefits	11,492	5,358
Supplies and materials	7,127	888
Total Maintenance	23,419	14,523
Total Division Point	168,680	166,368
Total Operations and Maintenance	2,647,035	2,585,431
Overall General and Administrative:		
Outside services	1,688,678	1,925,610
Administrative wages and benefits	484,960	481,553
FERC license fees	447,755	285,796
Property insurance	335,837	390,013
Safety fees and expense	125,339	122,057
Other wages and benefits-mobile equip. operation	80	75,575
Streamgaging	56,645	88,642
Office supplies and expense	69,097	79,236
Utilities	46,907	33,719
Meals allowance and travel expense	37,408	26,512
Telephone, internet, data links	29,897	20,695
Miscellaneous	39,611	26,648
Computer supplies	18,547	9,348
State water rights fees	14,850	(3,997)
Professional organizations	3,588	1,910
County taxes	1,589	976
Total Overall General and Administrative	3,480,447	3,564,293
Total General and Administrative	3,670,862	3,795,375
Total Power Generation Marketing	1,109,625	858,922
Depreciation and Amortization		
Depreciation on capital assets	1,202,304	1,019,757
FERC relicensing amortization	83,100	217,635
Total Depreciation and Amortization	1,285,404	1,237,392
TOTAL OPERATING EXPENSES	$ 8,712,926	$ 8,477,120

TRI-DAM PROJECT

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

December 31, 2011 and 2010

	2011	2010
SUMMARY OF OPERATING EXPENSES BY TYPE		
Operations	$ 1,321,098	$ 1,440,582
Maintenance	1,325,937	1,144,849
General and administrative	3,670,862	3,795,375
Power generation marketing	1,109,625	858,922
Depreciation and amortization	1,285,404	1,237,392
TOTAL OPERATING EXPENSES	$ 8,712,926	$ 8,477,120

COMPLIANCE REPORT

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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*

Board of Directors
Tri-Dam Project
Strawberry, California

We have audited the basic financial statements of the Tri-Dam Project (the Project) as of and for the year ended December 31, 2011 and have issued our report thereon dated April 11, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over financial reporting.

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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Project in a separate letter dated April 11, 2012.

The Project's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Project's response and, accordingly, we express no opinion on it.

Board of Directors
Tri-Dam Project

This report is intended solely for the information and use of the Board of Directors, Oakdale Irrigation District, South San Joaquin Irrigation District, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company

April 11, 2012

TRI-DAM PROJECT

SCHEDULE OF FINDINGS

For the Year Ended December 31, 2011

CURRENT YEAR FINDINGS:

None

STATUS OF PRIOR YEAR FINDINGS:

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Condition: The Project's capital assets were misstated.

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

Cause: A number of adjustments were posted to capital asset accounts in the general ledger in prior years that were not reflected on the capital asset detail records. As a result, the Chief Financial Officer had to spend a significant amount of time to correct the capital asset detail records, reconcile the balances to the general ledger and post correcting journal entries. Had this reconciliation been performed earlier in the year it would not have delayed the completion of the audit.

Recommendation: We recommend capital asset transactions be posted periodically throughout the year. Ideally capital asset entries should be posted on a monthly or quarterly basis. The detail list of capital assets should be reconciled to the general ledger after updating the list for current activity. It appears the December 31. 2010 capital asset records were properly reconciled at the conclusion of the audit.

Status of Prior Year Finding: Although improvement was noted, the Project did not reconcile capital assets regularly throughout the year. We continue to recommend capital assets be reconciled and posted regularly throughout the year.

Management's Response: We began posting capital asset additions and reconciling the capital asset detail list to the general ledger on a quarterly basis in 2012.