

TRI-DAM PROJECT
AUDITED FINANCIAL STATEMENTS
December 31, 2010

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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, 2010, 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. The financial statements of the Project as of and for the year ended December 31, 2009 were audited by other auditors whose report dated March 4, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 2010 and the changes in financial position and cash flows thereof for the year 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 25, 2011, 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 25, 2011

MANAGEMENT'S DISCUSSION
AND ANALYSIS

Tri Dam Project

Management's Discussion and Analysis

For the Year Ended December 31, 2010

This section of the Tri Dam Project's (Project) Annual Financial Report presents a discussion and analysis of the Project's financial performance during the fiscal year ended December 31, 2010. We encourage the readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying transmittal letter, our basic financial statements, and the notes to those financial statements.

FINANCIAL HIGHLIGHTS

Notable factors that are important to consider when reading the financial statements:

- Operating revenues increased from \$17.6 million in 2009 to \$19.3 million in 2010 due to a \$1.8 million increase in power generation revenues explained below.
- Net assets increased by \$14.7 million, from \$77.4 million in 2009 to \$92.1 million in 2010, mainly due to the increased power revenues, a \$6.6 million insurance recovery from business interruption insurance and a reduction in distributions to Member Districts of \$9.6 million.
- Operating expenses of \$9 million in 2010 represent a \$1 million increase from 2009, mainly from increased salaries and benefits, insurance and depreciation as explained below.
- Non-operating revenues decreased \$240 thousand to \$620 thousand in 2010, down from \$860 thousand in 2009, mainly due to decreased interest income from a decline in market rates and a shift of funds from investments to lower yielding money market funds.
- For every dollar in current liabilities, the Project holds \$18.89 in current assets, up from \$16.23 in 2009, mainly due to retaining earnings in cash and increased power generation receivables from the Donnell power plant returning to service.

FINANCIAL ANALYSIS OF THE PROJECT

This discussion and analysis is intended to serve as an introduction to the Project's basic financial statements. The Project's basic financial statements are comprised of three components: 1) Basic Financial Statements; 2) Supplementary Information; and 3) Compliance Reporting.

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 2010 and 2009 financial results.

STATEMENT OF NET ASSETS

Net Assets

As mentioned earlier, net assets can be an indicator of the financial strength of an organization. The Project's assets exceeded liabilities by \$92.1 million at December 31, 2010, an increase of \$14.7 million, including a \$4.6 million increase in unrestricted net assets. This is an indication of an improvement in the Project's financial condition.

The two largest components of the Project's net assets were invested in capital assets of \$52.5 million and unrestricted net assets of \$39.7 million. Net assets invested in capital assets represent the Project's investment in capital assets that will be eliminated with depreciation. See the capital assets section for more information on the changes in this component of net assets. The 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 increased due to the change in net assets offset by distributions netting to \$14.7 million, less the increase in net assets invested in capital assets. This was mainly due to the increased power revenues and insurance proceeds mentioned previously, offset by the increase in operating expenses discussed below.

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 limits 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 their Tulloch facility. 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 2010 and 2009.

	Condensed Statement of Net Assets		
	2010	2009	Increase (Decrease)
<u>Assets</u>			
Current Assets	\$ 38,858,913	\$ 34,017,019	\$ 4,841,894
Noncurrent Assets	2,908,489	3,126,124	(217,635)
Capital Assets	52,473,923	42,420,349	10,053,574
Total Assets	<u>\$ 94,241,325</u>	<u>\$ 79,563,492</u>	<u>\$ 14,677,833</u>
<u>Liabilities</u>			
Current and Other Liabilities	\$ 2,056,714	\$ 2,095,960	\$ (39,246)
Long-Term Liabilities	36,013	20,045	15,968
Total Liabilities	<u>2,092,727</u>	<u>2,116,005</u>	<u>(23,278)</u>
<u>Net Assets</u>			
Invested in Capital Assets	52,473,923	42,420,349	10,053,574
Unrestricted	39,674,675	35,027,138	4,647,537
Total Net Assets	<u>92,148,598</u>	<u>77,447,487</u>	<u>14,701,111</u>
Total Liabilities and Net Assets	<u>\$ 94,241,325</u>	<u>\$ 79,563,492</u>	<u>\$ 14,677,833</u>

The cash and cash equivalents balance is comprised of approximately \$2.5 million in cash on hand and \$32.0 million in investments. Of the \$32.0 million in investments, 16.7% or \$5.4 million are managed by Highmark Capital Management and the remainder is held in money market funds (83.2%) and the Local Agency Investment Fund (LAIF) (less than 1%).

Capital assets net of depreciation in 2010 increased \$10.1 million or 24% over 2009. This increase was primarily due to the continued construction of the Tulloch 3rd generating unit.

Liabilities

Liabilities decreased approximately \$23 thousand in 2010. This was primarily due to the removal of the overdraft liability in 2009. Accounts payable at the end of 2010 increased \$774 thousand to \$1.3 million, up from \$528 thousand in 2009. The increase was mainly due to payables for the Tulloch generator replacement project.

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		
	2010	2009	Increase (Decrease)
Operating Revenues	\$ 19,322,875	\$ 17,580,837	\$ 1,742,038
Operating Expenses	8,477,120	7,637,794	839,326
Net Loss from Operations	10,845,755	9,943,043	902,712
Nonoperating Revenues (Expenses):			
Investment Earnings	106,168	408,615	(302,447)
Water Sales	109,804	103,481	6,323
Rental of Equipment and Facilities	61,037	45,041	15,996
Other nonoperating revenues	77,860	40,451	37,409
Reimbursements	261,092	262,652	(1,560)
Total Non-Operating Revenues (Expenses)	615,961	860,240	(244,279)
Extraordinary item - business interruption insurance	6,639,395		6,639,395
Change in Net Assets	18,101,111	10,803,283	7,297,828
Net Assets, Beginning of Year	77,447,487	79,644,204	(2,196,717)
Less: Distributions to Districts	(3,400,000)	(13,000,000)	9,600,000
Net Assets, End of Year	\$ 92,148,598	\$ 77,447,487	\$ 14,701,111

Revenues

Total revenues increased \$1.5 million in 2010 to \$19.9 million. In addition, an extraordinary item, in the amount of \$6.6 million, was received for business interruption loss due to the Donnell's generator outage. See Note I for a more in depth discussion of the generator outage.

The increase in revenues was primarily due to the increase in power generation revenues as a result of the Donnell's unit coming back into service in early 2010. Investment earnings decreased approximately \$302 thousand from 2009 to a total of \$106 thousand in 2010 due to poor market conditions and decreased reserve balances. Reserve balances are expected to be restored over the course of several years once the Tulloch 3rd unit project is completed.

Operating Expenses

Operating expenses increased \$800 thousand in 2010. This increase was primarily due to wage increases of 4% in March of 2010, implementation of FERC license conditions, and significant purchases of supplies and equipment to perform maintenance tasks in-house. Wages are expected to increase 4% in March of 2011 per the Memorandum of Understanding with the Union. In addition, FERC license conditions implementation is expected to continue with recreation improvements for the Forest Service facilities beginning in 2011. See Note C for further discussion related to Forest Service recreation improvements.

Changes in Net Assets

Net assets increased \$7.3 million in 2010, or 68%, up from \$10.8 million in 2009. As discussed above, this increase was due to increased power generation revenues, business interruption insurance proceeds received this year and a reduction in the distribution to Member Districts. A similar trend is expected in 2011 as all facilities are expected to be running on regular schedules.

CAPITAL ASSETS

At the close of 2010, the Project's investment in capital assets (net of accumulated depreciation) increased \$10.1 million for a total of \$52.5 million, up from \$42.4 million in 2009. The 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 \$10.2 million in construction in progress \$8.2 million in construction in progress was used for the Tulloch 3rd unit, \$1.2 million for the restoration of the Donnells generator, and the remainder for several small projects. Power plant equipment increased \$600 thousand due to the close out of the spare transformer at Beardsley.

	2010	2009	Increase (Decrease)
Land	\$ 196,313	\$ 196,313	
Construction in progress	19,851,209	9,668,606	\$ 10,182,603
Dam and power plants	52,550,700	52,550,701	(1)
Water wheel, turbines and generators	7,251,627	7,250,899	728
Power plant equipment	3,636,054	2,988,145	647,909
Telemetry equipment	3,013,225	2,986,427	26,798
Buildings	951,953	923,398	28,555
Other equipment	2,607,075	2,439,749	167,326
Total Capital Assets	90,058,156	79,004,238	11,053,918
Less: accumulated depreciation	(37,584,233)	(36,583,889)	(1,000,344)
Net Capital Assets	<u>\$ 52,473,923</u>	<u>\$ 42,420,349</u>	<u>\$ 10,053,574</u>

Note C contains more information regarding capital assets.

ECONOMIC FACTORS AND THE FUTURE

2011 is forecasted as another difficult year for the economy. The Project expects to see increases in revenues as all units are online and working properly. Water shortages are not expected to be an issue as snow levels were above average. This is expected to reduce power prices but output should be above average, with energy revenues expected to exceed 2009 and 2010 levels. The Project has coordinated additional revenues of \$2 per MWh with Shell Energy for a limited amount of capacity. In addition, Renewable Energy Credits have been contracted for the 2011 year, increasing revenues at Tulloch and Beardsley by \$32 per MWh. For more information regarding energy revenue agreements refer to Note I.

Expenses for 2011 are expected to increase slightly as wage rates and benefit costs increase. Capital spending has been limited to necessary projects as completion of the Tulloch 3rd unit is the main focus.

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 3rd 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 for requests for additional financial information should be addressed to Summer Nicotero, Chief Financial Officer, P.O. Box 1158, Pinecrest, California 95364-0158 or summer@tridamproject.com.

BASIC FINANCIAL STATEMENTS

TRI-DAM PROJECT
STATEMENTS OF NET ASSETS

December 31, 2010 and 2009

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 29,170,299	\$ 14,696,616
Investments	5,352,668	15,533,999
Accounts receivable:		
Headwater benefit fees, PG&E	306,063	413,537
Power generation, Shell Energy North America	3,226,561	833,000
Insurance claim	313,446	1,606,324
Services receivable, Tri-Dam Power Authority	102,429	4,582
Other	213,371	208,918
Accrued interest receivable	61,740	59,000
Prepaid expenses and other assets	112,336	661,043
Total Current Assets	<u>38,858,913</u>	<u>34,017,019</u>
Noncurrent Assets		
Capital Assets		
Not depreciated	20,047,522	9,864,919
Depreciated, net	32,426,401	32,555,430
Total Capital Assets	<u>52,473,923</u>	<u>42,420,349</u>
Other Noncurrent Assets		
Federal Energy Regulatory Commission (FERC) Relicensing costs	3,323,989	3,323,989
Accumulated amortization	(415,500)	(197,865)
Total Unamortized FERC Relicensing Costs	<u>2,908,489</u>	<u>3,126,124</u>
Total Noncurrent Assets	<u>55,382,412</u>	<u>45,546,473</u>
TOTAL ASSETS	<u>\$ 94,241,325</u>	<u>\$ 79,563,492</u>
LIABILITIES		
Current Liabilities		
Accounts payable and other liabilities	\$ 1,301,653	\$ 527,759
Unearned revenues	387,926	10,940
Deposits	55,911	55,169
Due to the Federal Energy Regulatory Commission	90,000	90,000
Bank account overdraft		1,288,958
Compensated absences, current portion	221,224	123,134
Total Current Liabilities	<u>2,056,714</u>	<u>2,095,960</u>
Noncurrent Liabilities		
Compensated absences, noncurrent portion	36,013	20,045
Total Noncurrent Liabilities	<u>36,013</u>	<u>20,045</u>
TOTAL LIABILITIES	<u>2,092,727</u>	<u>2,116,005</u>
NET ASSETS		
Invested in capital assets	52,473,923	42,420,349
Unrestricted	39,674,675	35,027,138
TOTAL NET ASSETS	<u>92,148,598</u>	<u>77,447,487</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 94,241,325</u>	<u>\$ 79,563,492</u>

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Power generation revenues	\$ 19,085,399	\$ 17,265,543
Headwater benefit fees	237,476	315,294
Total Operating Revenues	<u>19,322,875</u>	<u>17,580,837</u>
Operating Expenses		
Operations	1,449,710	1,195,595
Maintenance	1,144,849	1,003,235
General and administrative	3,786,247	3,481,141
Power generation marketing	858,922	776,951
Depreciation and amortization	1,237,392	1,180,872
Total Operating Expenses	<u>8,477,120</u>	<u>7,637,794</u>
NET INCOME FROM OPERATIONS	10,845,755	9,943,043
Nonoperating Revenues		
Investment earnings	106,168	408,615
Water sales	109,804	103,481
Rental of equipment and facilities	61,037	45,041
Other nonoperating revenue	77,860	40,451
Reimbursements	261,092	262,652
Total Nonoperating Revenues	<u>615,961</u>	<u>860,240</u>
Extraordinary item - business interruption insurance proceeds	<u>6,639,395</u>	
CHANGE IN NET ASSETS	18,101,111	10,803,283
Net Assets, Beginning of Year	77,447,487	79,644,204
Less: Distributions to Member Districts	<u>(3,400,000)</u>	<u>(13,000,000)</u>
NET ASSETS, END OF YEAR	<u>\$ 92,148,598</u>	<u>\$ 77,447,487</u>

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

TRI-DAM PROJECT

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for power generation	\$ 16,691,838	\$ 16,665,197
Other operating receipts	247,103	782,657
Cash payments to employees for services	(1,702,833)	(2,754,510)
Cash payments to suppliers for goods and services	(5,388,452)	(4,137,614)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>9,847,656</u>	<u>10,555,730</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash distributions to Member Districts	(3,400,000)	(13,000,000)
Extraordinary item - business interruption insurance proceeds	8,309,259	
Other nonoperating revenues received	505,340	626,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>5,414,599</u>	<u>(12,374,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(11,073,331)	(6,406,984)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(11,073,331)</u>	<u>(6,406,984)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(21,589,342)	
Proceed from sales of investment securities	31,685,318	6,450,768
Interest received	188,783	462,986
NET CASH USED FOR INVESING ACTIVITIES	<u>10,284,759</u>	<u>6,913,754</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	14,473,683	(1,311,500)
Cash and cash equivalents - beginning of year	<u>14,696,616</u>	<u>16,008,116</u>
CASH AND CASH EQUIVALENTS- END OF YEAR	<u>\$ 29,170,299</u>	<u>\$ 14,696,616</u>
Reconciliation of net income from operations to net cash provided by operating activities:		
Net income from operations	\$ 10,845,755	\$ 9,943,043
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,237,392	1,180,872
Loss on disposal of capital assets		(25,741)
Changes in operating assets and liabilities:		
Decrease (increase) in power generation receivable	(2,393,561)	176,605
Decrease (increase) in other receivables	9,627	(1,577,956)
Decrease (increase) in prepaid expenses and other assets	548,707	(485,175)
Increase (decrease) in accounts payable	773,894	60,877
Increase (decrease) in other liabilities	742	(5,753)
Increase (decrease) in bank overdraft	(1,288,958)	1,288,958
Increase (decrease) in compensated absences	114,058	
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,847,656</u>	<u>\$ 10,555,730</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Change in the unrealized loss on investments	\$ (112,643)	\$ 110,876

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

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2010 and 2009

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 a separate legal entity. 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, power plant 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.

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

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. 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). In addition to these receivables, at December 31, 2009, the Project accrued \$1,606,324 of Donnell’s generator replacement costs that were reimbursed by insurance in 2010. See Note I for more information on the Donnell’s generator replacement project. The Project has determined that an allowance for doubtful accounts was not necessary at December 31, 2010 and 2009.

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:

<u>Class of Capital Asset</u>	<u>Estimated Lives in Years</u>
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

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

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

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.

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, 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 \$313,466 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. There were no significant unearned revenues at December 31, 2009.

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.

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

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

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. PG&E was offered the opportunity to modify the existing arrangement, but it declined. 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.

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 Donnell's 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 Donnell's generator went out of operation and needed to be replaced, as discussed in Note I. The Project received \$6,639,395 of business interruption insurance proceeds during 2010. 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, 2010 and 2009. 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 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 2009 financial statements to conform to the current presentation. These reclassifications had no effect on previously reported change in net assets.

New Pronouncements: The Project considered the impact of Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires intangible assets to be capitalized and depreciated, including water rights, easements and rights-of-way, and determined it had no intangible assets that met the scope of this pronouncement.

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

NOTE B – CASH AND INVESTMENTS

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

	2010	2009
Cash and cash equivalents		
Cash on hand	\$ 300	\$ 300
Deposits with financial institutions	2,547,881	
Money market mutual funds	26,616,507	14,690,728
Deposits in Local Agency Investment Fund (LAIF)	5,611	5,588
Total cash and cash equivalents	29,170,299	14,696,616
Investments		
Investments held by Union Bank	5,352,668	15,533,999
Total investments	5,352,668	15,533,999
 Total cash and investments	 \$ 34,522,967	 \$ 30,230,615

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

	2010	2009
Cash and cash equivalents		
Cash on hand	\$ 300	\$ 300
Deposits with financial institutions	2,547,881	
Total cash and deposits	2,548,181	300
Banker's acceptances	249,948	
Commercial paper	954,899	4,963,019
Medium corporate term notes	4,147,821	10,570,680
Money market mutual funds	26,616,507	14,690,728
Local Agency Investment Fund (LAIF)	5,611	5,588
Total investments	31,974,786	30,230,015
 Total cash and investments	 \$ 34,522,967	 \$ 30,230,315

The tables above do not include a cash overdraft of \$1,288,958 classified as a liability at December 31, 2009.

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. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Project, rather than the general provisions of the California Government Code or the Project's investment policy. The Project's permissible investments included the following instruments:

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

NOTE B – CASH AND INVESTMENTS (Continued)

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	5 years	None	None
Medium term corporate notes	3 years	30%	None
Money market mutual funds	N/A	20%	10%
LAIF	N/A	None	None

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

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

Information about the sensitivity of the fair values of the Project's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Project's investments by maturity at December 31, 2010:

	Total	Remaining Maturity	
		12 Months or Less	13-24 Months
Banker's acceptances	\$ 249,948	\$ 249,948	
Commercial paper	954,899	954,899	
Medium term corporate notes	4,147,821	2,296,356	\$ 1,851,465
Money market mutual funds	26,616,507	26,616,507	
LAIF	5,611	5,611	
Total	<u>\$ 31,974,786</u>	<u>\$ 30,123,321</u>	<u>\$ 1,851,465</u>

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

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.

	Total	Minimum Legal Rating	Ratings as of Year End		
			AAA/A-1	A2/A	Not Rated
Banker's acceptances	\$ 249,948	N/A		\$ 249,948	
Commercial paper	954,899	A1/P1	\$ 954,899		
Medium term corporate notes	4,147,821	AAA	2,029,110	2,118,711	
Money market mutual funds	26,616,507	AAA/Aaa	26,616,507		
LAIF	5,611	N/A			\$ 5,611
	<u>\$ 31,974,786</u>		<u>\$ 29,600,516</u>	<u>\$ 2,368,659</u>	<u>\$ 5,611</u>

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, with the exception of U.S. Treasury obligations, mutual funds and external investment pools. There are no investments in any one issuer (other than mutual funds) that represent 5% or more of total Project investments.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California 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, 2010, the carrying amount of the Project's deposits was \$2,547,881. At December 31, 2009, the Project had no deposits. The balances in financial institutions were \$2,559,314 and \$69,604, at December 31, 2010 and 2009, respectively. All of the balances in financial institutions were covered by federal depository insurance or assets pledged by the financial institution at December 31, 2010 and 2009.

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, 2010 by all public agencies in LAIF is \$74,628,281,440 and is managed by the State Treasurer. Of that amount, 96.2% is invested in non-derivative financial products and 3.8% 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.

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

NOTE C – CAPITAL ASSETS

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

	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	<u>9,864,919</u>	<u>10,231,638</u>		<u>(49,035)</u>	<u>20,047,522</u>
Capital assets, being depreciated:					
Dam and power plants	52,550,701	15,274	\$ (15,275)		52,550,700
Water wheel, 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	<u>69,139,319</u>	<u>856,968</u>	<u>(34,688)</u>	<u>49,035</u>	<u>70,010,634</u>
Accumulated depreciation:					
Dam and power plants	(30,369,025)	(480,537)			(30,849,562)
Water wheel, 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	<u>(36,583,889)</u>	<u>(1,019,757)</u>	<u>19,413</u>		<u>(37,584,233)</u>
Total capital assets being depreciated, net	<u>32,555,430</u>	<u>(162,789)</u>	<u>(15,275)</u>	<u>49,035</u>	<u>32,426,401</u>
Capital assets, net	<u>\$ 42,420,349</u>	<u>\$ 10,068,849</u>	<u>\$ (15,275)</u>	<u>\$ -</u>	<u>\$ 52,473,923</u>

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

NOTE C – CAPITAL ASSETS (Continued)

	Balance at January 1, 2009	Additions	Disposals	Transfers and Adjustments	Balance at December 31, 2009
Capital assets, not being depreciated:					
Land	\$ 196,313				\$ 196,313
Construction in progress	3,440,046	\$ 6,269,691	\$ (41,131)		9,668,606
Total capital assets not being depreciated	3,636,359	6,269,691	(41,131)		9,864,919
Capital assets, being depreciated:					
Dam and power plants	52,550,701				52,550,701
Water wheel, turbines and generators	7,250,899				7,250,899
Power plant equipment	2,975,029	13,116			2,988,145
Telemetry equipment	3,011,225	1,570		\$ (26,368)	2,986,427
Buildings	912,092	11,306			923,398
Other equipment	2,260,950	152,431		26,368	2,439,749
Total capital assets being depreciated	68,960,896	178,423			69,139,319
Accumulated depreciation:					
Dam and power plants	(29,890,658)	(478,367)			(30,369,025)
Water wheel, turbines and generators	(1,664,233)	(177,781)			(1,842,014)
Power plant equipment	(876,467)	(113,170)			(989,637)
Telemetry equipment	(1,335,358)	(127,624)	25,742		(1,437,240)
Buildings	(559,094)	(24,450)			(583,544)
Other equipment	(1,166,768)	(195,661)			(1,362,429)
Total accumulated depreciation	(35,492,578)	(1,117,053)	25,742		(36,583,889)
Total capital assets being depreciated, net	33,468,318	(938,630)	25,742		32,555,430
Capital assets, net	\$ 37,104,677	\$ 5,331,061	\$ (15,389)	\$ -	\$ 42,420,349

Construction in progress included approximately \$10 million and \$9.5 million at December 31, 2010 and 2009 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 fall of 2011, 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, 2010	Additions	Repayments	Balance at December 31, 2010	Due within One Year
Compensated absences	\$ 143,179	\$ 235,722	\$ (121,664)	\$ 257,237	\$ 221,224

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

NOTE D – LONG-TERM LIABILITIES (Continued)

	Balance at January 1, 2009	Additions	Repayments	Balance at December 31, 2009	Due within One Year
Compensated absences	\$ 148,930	\$ 122,329	\$ (128,080)	\$ 143,179	\$ 123,134

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:

	2010	2009
Maintenance reserve	\$ 3,932,798	\$ 12,863,266
Operating reserve	6,000,000	6,000,000
Insurance reserve	4,717,837	4,696,671
Total designated net assets	<u>\$ 14,650,635</u>	<u>\$ 23,559,937</u>

NOTE F – DISTRIBUTIONS TO MEMBERS DISTRICTS

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

	2010	2009
Oakdale Irrigation District	\$ 1,700,000	\$ 6,500,000
South San Joaquin Irrigation District	1,700,000	6,500,000
Total designated net assets	<u>\$ 3,400,000</u>	<u>\$ 13,000,000</u>

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.

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

Funding Policy: Active plan members are required to contribute 8% of their annual covered salary, which is shared between the 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 \$98,003 and \$95,215 for the years ended December 31, 2010 and 2009, respectively. The Project is required to contribute at an actuarially determined rate: the rate for January 1 to June 30, 2009 was 10.037%, the rate for July 1, 2009 to June 30, 2010 was 9.79%, and the rate from July 1 to December, 2010 was 10.263%. 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, 2010, 2009, and 2008 were \$261,984, \$254,031 and \$217,587, 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.

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:

	2010	2009
Annual required contribution (ARC)	\$ 26,638	\$ 10,504
Interest on net OPEB obligation	483	
Adjustment to annual required contribution		
Annual OPEB cost (expense)	<u>27,121</u>	<u>10,504</u>
Contributions made	<u>(17,993)</u>	<u>(10,504)</u>
Increase in net OPEB obligation	<u>9,128</u>	<u>-</u>
Net OPEB obligation beginning of year		
Net OPEB obligation (asset) - end of year	<u>\$ 9,128</u>	<u>\$ -</u>

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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, 2008	\$ 10,008	100.00%	\$ -
December 31, 2009	10,504	100.00%	
December 31, 2010	26,638	66.34%	9,128

The net OPEB obligation is included in accounts payable and other liabilities on the statement of net assets.

Funded Status and Funding Progress: As of December 31, 2010 and 2009, 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.

For the December 31, 2010 and 2009 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 2010 included a 4.0% investment rate of return, health premiums increases of 4.1% to 4.9%, 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 actuarial assumptions in 2009 included a 4.0% investment rate of return, health premiums increases of 8%, 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 30-year period as of June 30, 2010 and 2009.

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

NOTE H – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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%

NOTE I – CONTINGENCIES AND COMMITMENTS

Water Rights: The SWRCB is in the process of updating its 1995 and 2006 Water Quality Control Plans. New San Joaquin River and Delta Salinity flow standards are expected to be adopted in 2011. Water rights hearings to enforce the new standards would then be held, which could take several years. The enforcement proceedings could require that the Member Districts contribute water to implement the standards. The amount of this potential exposure is not known at this time. The Member Districts are parties to the San Joaquin River Agreement (SJRA) with the USBR and other state and federal agencies in which the Member Districts agreed to contribute water to assist the USBR in implementing the 1995 and 2006 Plans, in lieu of regulatory enforcement against them. The Member Districts have contributed water to meet the flow standards in some years and have been paid for their commitment over the 10 year terms of the agreement. The SJRA expired after 10 years in 2009, but it has been extended for an additional year. Negotiations to extend the SJRA for several more years are under way. If the SJRA is extended, the Member Districts' exposure to new water quality standards would be greatly minimized so long as the new agreement is in effect.

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 March 2011, the Project received an additional reimbursement in the amount of \$313,466 that was marked "final payment." However, the Project and its legal council believe the Project is due additional payments under the terms of its insurance policy. The Project's management believes it could be due over \$1 million of additional insurance proceeds and is negotiating with the insurance company. The amount of additional insurance proceeds that may be received has been estimated by management and the amount that is ultimately received may differ from management's estimate.

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.

TRI-DAM PROJECT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

NOTE 1 – 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 \$7,949,107 and \$15,510,926 at December 31, 2010 and 2009, respectively. These commitments represent contract commitments to numerous contractors and the project manager. The project is expected to be substantially completed during 2011.

Power Sale Commitment: Beginning on January 1, 2011, the Project entered into an agreement with Shell Energy North America (SENA) to sell an additional 36,000 megawatt hours (MWhs) of energy produced by Donnell's Hydro dam. SENA will exercise this option with the understanding that the power sold under this agreement will be paid at the market rate plus \$2 per MWh. The agreement ends December 31, 2011.

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 Donnell's 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, plus contract amendments not to exceed 10% without prior approval of the Project. The USDA, Forest Service is requesting significant up front funding by the Project before starting construction, which is currently being negotiated.

OTHER SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT

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

December 31, 2010 and 2009

	2010	2009
Donnells Facility:		
Operations		
Supervision wages and benefits	\$ 75,102	\$ 28,414
Hydraulic wages and benefits	5,559	9,716
Electric wages and benefits	234,878	190,795
Other wages and benefits	51,480	33,869
Supplies and materials	3,488	5,390
Total Operations	<u>370,507</u>	<u>268,184</u>
Maintenance		
Supervision wages and benefits	38,223	451
Structures wages and benefits	20,457	9,832
Reservoirs and dams wages and benefits	20,540	51,658
Electrical plant wages and benefits	99,887	31,345
Other wages and benefits	19,995	20,268
High voltage wages and benefits	25,723	3,403
Communications and security wages and benefits	14,946	32,523
Supplies and materials	55,208	79,767
Total Maintenance	<u>294,979</u>	<u>229,247</u>
General and Administrative		
Other	501	
Power generation marketing	408,985	386,285
Total Donnells Facility	<u>1,074,972</u>	<u>883,716</u>
Beardsley Facility:		
Operations		
Supervision wages and benefits	25,789	16,695
Hydraulic wages and benefits	27,738	49,371
Electric wages and benefits	177,859	150,707
Other wages and benefits	39,051	36,463
Supplies and materials	2,340	2,449
Total Operations	<u>272,777</u>	<u>255,685</u>
Maintenance		
Supervision wages and benefits	19,084	605
Structures wages and benefits	21,529	35,306
Reservoirs and dams wages and benefits	29,649	48,668
Electrical plant wages and benefits	50,713	36,917
Other wages and benefits	18,482	10,546
High voltage wages and benefits	5,204	7,342
Communications and security wages and benefits	20,437	10,176
Supplies and materials	45,967	40,440
Total Maintenance	<u>211,065</u>	<u>190,000</u>

TRI-DAM PROJECT

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

December 31, 2010 and 2009

	2010	2009
General and Administrative		
Other wages and benefits	\$ 194	\$ 3,809
USFS resource management support	13,528	8,262
Other	7,541	
Total General & Administrative	<u>21,263</u>	<u>12,071</u>
Power generation marketing	<u>153,164</u>	<u>152,488</u>
Total Beardsley Facility	<u>658,269</u>	<u>610,244</u>
 Tulloch Facility:		
Operations		
Supervision wages and benefits	25,185	17,415
Hydraulic wages and benefits	61,564	39,443
Electric wages and benefits	220,657	180,861
Other wages and benefits	15,229	31,349
Supplies and materials	4,886	3,628
Total Operations	<u>327,521</u>	<u>272,696</u>
Maintenance		
Supervision wages and benefits	39,517	661
Structures wages and benefits	9,227	22,760
Reservoirs and dams wages and benefits	23,261	41,999
Electrical plant wages and benefits	127,615	123,256
Other wages and benefits	16,275	8,013
High voltage wages and benefits	14,045	4,462
Communications and security wages and benefits	13,345	15,547
Supplies and materials	61,062	57,162
Total Maintenance	<u>304,347</u>	<u>273,860</u>
General and Administrative		
Headwater benefit assessment	90,247	90,192
Other	14,723	
Total General and Administrative	<u>104,970</u>	<u>90,192</u>
Power generation marketing	<u>296,773</u>	<u>238,178</u>
Total Tulloch Facility	<u>1,033,611</u>	<u>874,926</u>
 Goodwin Facility:		
Operations		
Supervision wages and benefits	47,894	28,494
Hydraulic wages and benefits	26,809	25,652
Electric wages and benefits	101,680	89,963
Supplies and materials	3,312	2,951
Total Operations	<u>179,695</u>	<u>147,060</u>

TRI-DAM PROJECT

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

December 31, 2010 and 2009

	2010	2009
Maintenance		
Supervision wages and benefits	\$ 765	\$ 1,447
Reservoirs and dams wages and benefits	7,658	2,419
Other wages and benefits	4,733	
Communications and security wages and benefits	3,325	2,406
Supplies and materials		1,481
Total Maintenance	<u>16,481</u>	<u>7,753</u>
General and Administrative		
Administrative wages and benefits	14,976	9,355
Contract Services	2,344	2,138
Property insurance	8,507	5,028
Dam safety fees	11,593	11,593
Streamgaging	64,528	55,658
Other	2,400	2,400
Total General & Administrative	<u>104,348</u>	<u>86,172</u>
Total Goodwin Facility	<u>300,524</u>	<u>240,985</u>
Mt Elizabeth Facility:		
Operations		
Supplies and materials	12,261	10,106
Maintenance		
Structures wages and benefits	503	1,337
Other wages and benefits	7,676	1,969
Communications and security wages and benefits	13,327	14,396
Supplies and materials	1,146	3,277
Total Maintenance	<u>22,652</u>	<u>20,979</u>
Total Mt. Elizabeth Facility	<u>34,913</u>	<u>31,085</u>
Strawberry Peak Facility:		
Operations		
Supplies and materials	5,934	6,515
Maintenance		
Supervision wages and benefits	26	473
Structures wages and benefits	1,206	1,467
Other wages and benefits	7,520	2,202
Communications and security wages and benefits	17,883	7,792
Supplies and materials	2,811	1,147
Total Maintenance	<u>29,446</u>	<u>13,081</u>
Total Strawberry Peak	<u>35,380</u>	<u>19,596</u>

TRI-DAM PROJECT

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

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operations Center:		
Operations		
Supervision wages and benefits	\$ 24,498	\$ 17,358
Hydraulic wages and benefits	233	4,665
Electric wages and benefits	100,368	62,358
Supplies and materials	2,838	5,082
Total Operations	<u>127,937</u>	<u>89,463</u>
Maintenance		
Supervision wages and benefits	3,170	
Structures wages and benefits	918	4,271
Other wages and benefits	78	1,633
Communications and security wages and benefits	29,929	37,920
Supplies and materials	3,453	17,307
Total Maintenance	<u>37,548</u>	<u>61,131</u>
Total Operations Center	<u>165,485</u>	<u>150,594</u>
Service Center Facilities:		
Operations		
Hydraulic wages and benefits	1,106	13,535
Other wages and benefits	127	
Total Operations	<u>1,233</u>	<u>13,535</u>
Maintenance		
Supervision wages and benefits	6,719	575
Structures wages and benefits	6,363	1,276
Communications and security wages and benefits	194	3,834
Supplies and materials	200,532	185,541
Total Maintenance	<u>213,808</u>	<u>191,226</u>
Total Service Center	<u>215,041</u>	<u>204,761</u>
Division Point Facility:		
Operations		
Supervision wages and benefits	24,584	17,790
Hydraulic wages and benefits	24,555	21,787
Electric wages and benefits	101,268	91,028
Supplies and materials	1,438	1,746
Total Operations	<u>151,845</u>	<u>132,351</u>

TRI-DAM PROJECT

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

December 31, 2010 and 2009

	2010	2009
Maintenance		
Supervision wages and benefits	\$ 1,904	
Structures wages and benefits	1,304	\$ 245
Reservoirs and dams wages and benefits	104	2,103
Other wages and benefits	4,965	1,652
Communications and security wages and benefits	5,358	10,639
Supplies and materials	888	1,319
Total Maintenance	<u>14,523</u>	<u>15,958</u>
Total Division Point	<u>166,368</u>	<u>148,309</u>
Total Operations and Maintenance	<u>2,594,559</u>	<u>2,198,830</u>
Overall General and Administrative:		
Outside services	1,925,610	1,969,241
Administrative wages and benefits	472,425	440,288
FERC license fees	285,796	255,488
Property insurance	390,013	230,591
Safety fees and expense	122,057	108,433
Other wages and benefits-mobile equip. operation	75,575	36,607
Streamgaging	88,642	70,730
Office supplies and expense	79,236	50,003
Utilities	33,719	28,402
Meals allowance and travel expense	26,512	16,126
Telephone, internet, data links	20,695	16,236
Miscellaneous	26,648	35,812
Computer supplies	9,348	9,004
State water rights fees	(3,997)	20,959
Professional organizations	1,910	3,600
County taxes	976	1,186
Total Overall General and Administrative	<u>3,555,165</u>	<u>3,292,706</u>
Total General and Administrative	<u>3,786,247</u>	<u>3,481,141</u>
Total Power Generation Marketing	<u>858,922</u>	<u>776,951</u>
Depreciation and Amortization		
Depreciation on capital assets	1,019,757	1,180,872
FERC relicensing amortization	217,635	
Total Depreciation and Amortization	<u>1,237,392</u>	<u>1,180,872</u>
TOTAL OPERATING EXPENSES	<u>\$ 8,477,120</u>	<u>\$ 7,637,794</u>

TRI-DAM PROJECT

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

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
SUMMARY OF OPERATING EXPENSES BY TYPE		
Operations	\$ 1,449,710	\$ 1,195,595
Maintenance	1,144,849	1,003,235
General and administrative	3,786,247	3,481,141
Power generation marketing	858,922	776,951
Depreciation and amortization	<u>1,237,392</u>	<u>1,180,872</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 8,477,120</u>	 <u>\$ 7,637,794</u>

COMPLIANCE REPORT

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, 2010 and have issued our report thereon dated April 25, 2011. 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings as finding 2010-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

Board of Directors
Tri-Dam Project

We noted certain other matters that we reported to management of the Project in a separate letter dated April 25, 2011.

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.

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 25, 2011

TRI-DAM PROJECT
SCHEDULE OF FINDINGS

For the Year Ended December 31, 2010

CURRENT 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.

Management's Response: We believe the capital assets are properly recorded at December 31, 2010. We began posting capital asset additions and reconciling the capital asset detail list to the general ledger on a monthly basis in 2011.

STATUS OF PRIOR YEAR FINDINGS:

None