SOUTH SAN JOAQUIN
IRRIGATION DISTRICT

Annual Financial Report 2013

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South San Joaquin Irrigation District

Annual Financial Report

December 31, 2013 and 2012

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Auditor’s Report

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Richardson & Company

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South San Joaquin Irrigation District
Manteca, California

Report on the Financial Statements

We have audited the accompanying financial statements of the South San Joaquin Irrigation District (the District) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2013 and 2012 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

To the Board of Directors
South San Joaquin Irrigation District

Report on Supplemental Information

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

Richardson & Company

May 19, 2014

Management’s Discussion and Analysis

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Introduction

In this discussion and analysis, management provides an overview of the South San Joaquin Irrigation District's ("the District" or "SSJID") financial position at December 31, 2013 and 2012 and its financial performance for the years then ended. Condensed financial information from 2011 is also presented for comparison only. Limited information is presented about conditions and events that may affect the District's future financial position and performance. The intent is to provide context for understanding the financial statements and the District's prospects, and assistance interpreting the financial statements. This discussion and analysis presents management's perspective and should be read in conjunction with the District's financial statements and accompanying notes which follow this discussion and analysis.

Financial Statements

The District's financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements, together with the related footnotes, are known as the "basic financial statements" and comply with generally accepted accounting principles, which for all state and local governments including the District, are set forth in Governmental Accounting Standards Board (GASB) Statements. In many, but not all cases, GASB Statements incorporate the provisions of Financial Accounting Standards Board Statements which establish generally accepted accounting principles for nongovernmental entities. The District's activities are business type activities and are accounted for as an enterprise fund. The accounting principles for an enterprise fund more closely resemble those of a commercial entity than a government.

Balance Sheet

The balance sheet provides information about assets, deferred outflows, obligations (liabilities), deferred inflows, and net position of the District at a specific point in time. All amounts (except for investments in marketable debt securities) are shown at cost. Therefore, the liabilities, deferred inflows, and net position sections of this statement reveal the sources of the District's capital, and the assets and deferred outflows section shows how the capital has been used. The net position section reveals the life-to-date results of operations. Current assets and current liabilities are shown separately from other assets and liabilities to enable the reader to evaluate the adequacy of the District's working capital. Working capital is the excess of current assets over current liabilities, and current assets and current liabilities are those unrestricted amounts which liquidate within one year.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position provides information regarding the District's financial performance during the year. The difference between revenues and expenses is the change in net position for the period. The total net position in the balance sheet represents the life-to-date accumulation of changes in net position.

Revenues earned and expenses incurred during the year are presented in two categories: operating and nonoperating. This allows the reader to evaluate the financial results of operating activities separately from other sources of income and expense.

Earnings of the Tri-Dam entities are shown as nonoperating revenues because the District delegates operation of those activities to the joint venture organization (Tri-Dam Project) and the Tri-Dam Power Authority. The statement ends by showing how net income for the year, including capital contributions, accounts for the change in net position that occurred during the year.

Statement of Cash Flows

Because revenues and expenses are not identical to cash flows, generally accepted accounting principles require the statement of cash flows. The statement of cash flows reports sources and uses of cash in four categories: operating activities, noncapital financing activities, capital financing activities, and investing activities. The statement also presents a reconciliation of the differences between net income from operations and net cash flows from operations.

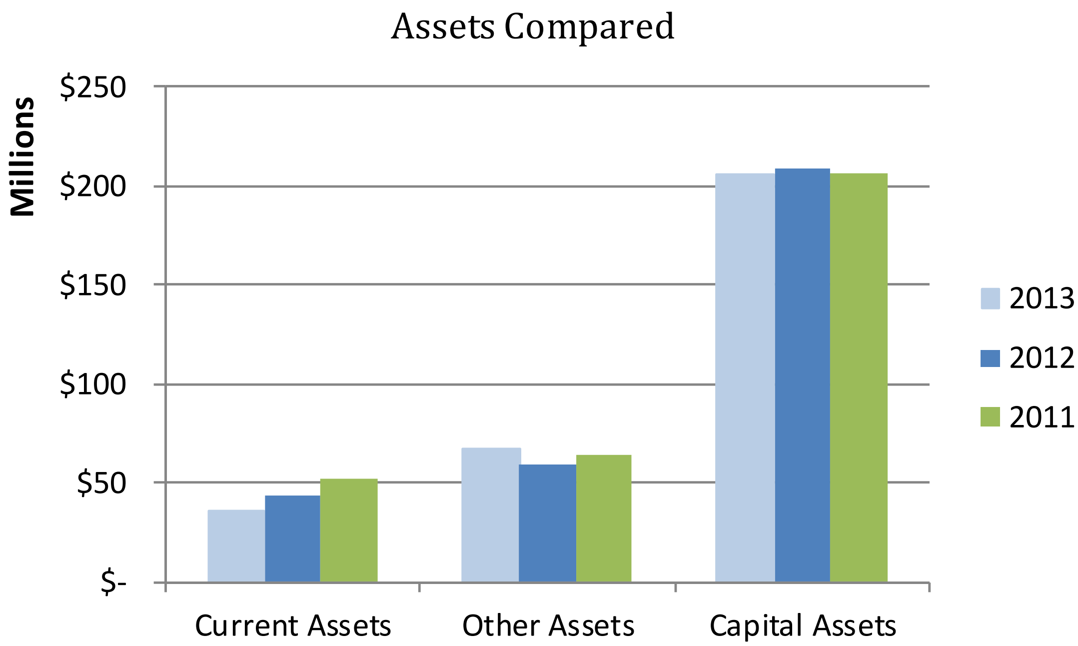
Financial Highlights

Highlights from the financial statements are discussed below.

Balance Sheet Discussion

Condensed Balance Sheets
For the Years Ended December 31

	2013	2012	2011
Current assets	$ 35,675,512	$ 44,070,323	$ 51,808,928
Other assets and investments	67,061,686	59,093,030	64,450,879
Capital assets	205,478,640	209,011,181	206,869,492
Total assets	308,215,838	312,174,534	323,129,299
Deferred outflow on refunding of long term debt	512,864	678,270	
Total assets and deferred outflows	$ 308,728,702	$ 312,852,804	$ 323,129,299
Current liabilities	$ 5,864,015	$ 6,445,405	$ 10,324,079
Long-term liabilities	13,251,361	16,660,574	18,745,025
Total Liabilities	19,115,376	23,105,979	29,069,104
Net investment in capital assets	192,762,414	194,048,766	196,540,240
Restricted net position	5,641,990	6,504,939	13,976,741
Unrestricted position	91,208,922	89,193,120	83,543,214
Total net position	289,613,326	289,746,825	294,060,195
Total liabilities and net position	$ 308,728,702	$ 312,852,804	$ 323,129,299



- Current assets declined $8.4 million in 2013. The decline was caused by transfers of cash and cash equivalents, and current investments in marketable securities into noncurrent investments.

- Current assets declined $7.7 million in 2012. The decline was caused by expenditures on capital improvements.

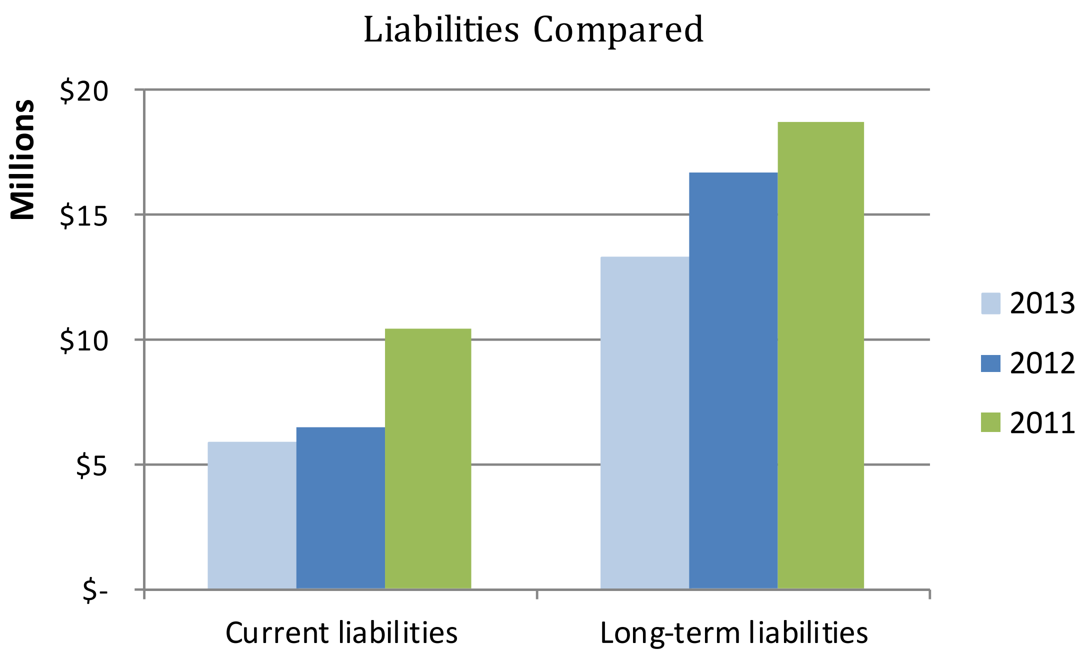
- Other assets increased $8.0 million in 2013 as cash and cash equivalents, and funds invested in current investments in marketable securities were used to purchase noncurrent investments.

- Other assets decreased $5.4 million in 2012 as the restricted construction fund was expended on capital improvements, primarily the Division 9 pressurized distribution system.

- In 2013 capital assets decreased due to $6.8 million of depreciation expense, while there were $3.7 million of additions to capital assets, and a write-off of $400,000 of work-in-progress to materials and supplies expense, as explained in note 6 to the financial statements. The net result was that capital assets decreased $3.5 million.

- In 2012 capital assets increased $2.1 million as the amount of new assets exceeded depreciation expense for the year.

- The deferred outflow on refunding of long term debt decreased $165,000 in 2013 due to scheduled amortization over the remaining term of the 2012A bonds. The deferred outflow arose in 2012 when the 2008A certificates of participation were refunded by the issuance of the 2012A bond series. The amount paid into escrow by the District to defease the 2008A certificates of participation exceeded the book value of the 2008A debt and this excess is the original amount of the deferred outflow. The 2008A debt was defeased more than a year in advance of the next available call date so the defeasing escrow had to be sufficient to cover some interest payments as well as the principal amount of the outstanding 2008A certificates of participation. Mostly for this reason, the payment to escrow was more than the book value of the 2008A debt.



- Current liabilities fell by $3.9 million in 2012 and then by nearly $600,000 in 2013 as accounts payable related to capital asset acquisition and construction decreased when the Division 9 pressurization project was completed in 2012, and a project to line part of the main distribution canal was completed in 2013.

- Long term liabilities declined by $2.1 million in 2012 and another $3.4 million in 2013. This was mostly attributable to principal reduction on outstanding bonds. In 2013 a reduction in the liability for compensated absences accounted for $1 million of the decline in long term liabilities. The liability for compensated absences includes an estimate of how much sick leave will be used or cashed out in the future. A change in policy for estimating this amount brought about the decrease in 2013.

- The components of changes in net position for each year are detailed in the statement of revenues, expenses, and changes in net position.

- Restricted net position consists of restricted assets less associated liabilities of which there are none. Restricted net position is equal to total restricted assets in the table below.

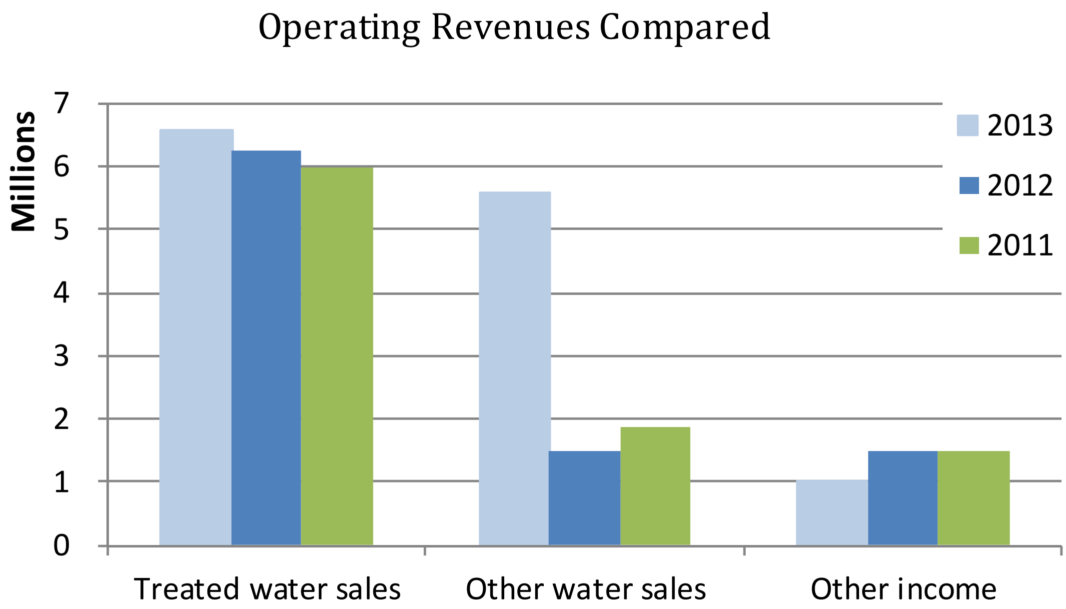
Restricted Assets	2013	2012	2011
Debt service reserve fund	$ 1,803,005	$ 1,798,060	$ 2,498,473
Construction fund - irrigation			6,297,274
Construction and capital replacement funds - water treatment	3,822,157	4,675,932	5,157,240
Accrued interest receivable on restricted investments	16,828	30,947	23,752
Total restricted assets	**$ 5,641,990**	**$ 6,504,939**	**$ 13,976,739**

Revenues and Expenses Discussion

Condensed Statement of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31

	2013	2012	2011
Treated water sales	$ 6,572,247	$ 6,258,240	$ 5,993,528
Other water sales	5,566,091	1,490,638	1,864,342
Other income	1,016,160	1,495,099	1,478,986
Total Operating Revenues	13,154,498	9,243,977	9,336,856
Labor	10,806,462	10,891,054	10,316,088
Other operating and maintenance	4,974,155	4,312,502	4,533,984
General and administrative	3,083,231	3,501,151	2,906,541
Depreciation	6,786,478	6,342,879	6,289,996
Total Operating Expenses	25,650,326	25,047,586	24,046,609
Net Loss from Operations	(12,495,828)	(15,803,609)	(14,709,753)
Net Nonoperating Revenues	11,103,925	9,849,354	14,065,875
Net Loss before Contributions	(1,391,903)	(5,954,255)	(643,878)
Capital contributions	1,258,404	1,640,885	2,159,662
Change in Net Position	(133,499)	(4,313,370)	1,515,784
Net Position, Beginning of Year	289,746,825	294,060,195	292,544,411
Net Position, End of Year	$ 289,613,326	$ 289,746,825	$ 294,060,195

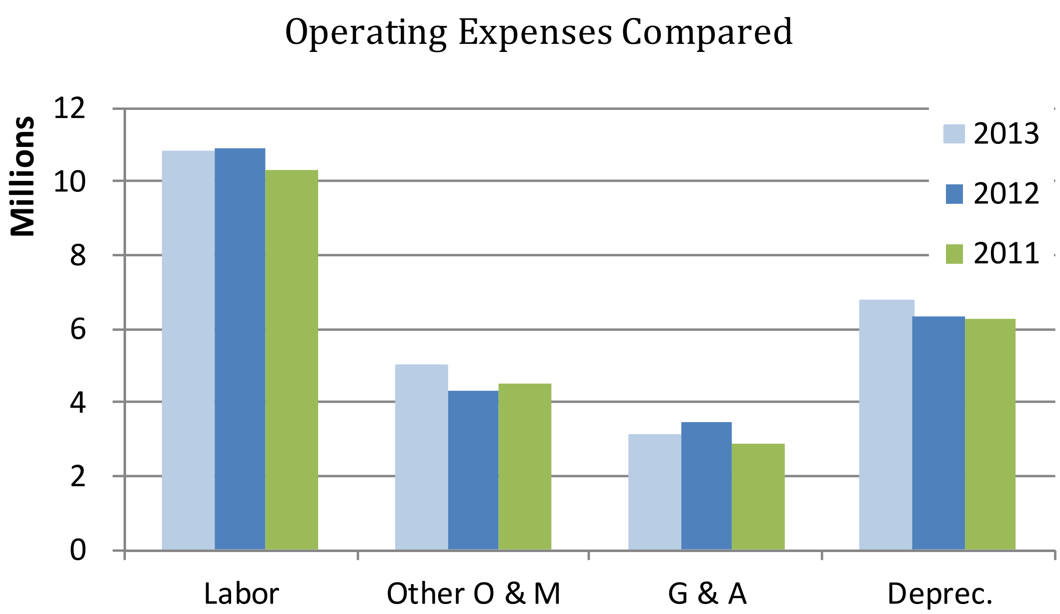


- Treated water sales to the cities of Manteca, Lathrop, and Tracy grew by $265,000 (5%) in 2012 and by $314,000 (4%) in 2013 mostly due to inflation in the operating costs of the water treatment plant.

- The amount of other water sales shows a drop of about $400,000 in 2012 because of a decrease in water transfers to out-of-district buyers.

- A $4.1 million increase in other water sales is reported for 2013 primarily because the District agreed to a one-time transfer of 40,000 acre-feet to the San Luis and Delta Mendota Water Authority and the state Department of Water Resources. There was also a small increase of $53,000 in irrigation sales due to increased use by irrigators of the Division 9 pressurized distribution system. In addition to established water charges, irrigators on this system paid an additional $30 per acre-foot for the pressurization and scheduling services.

- Other income was almost unchanged in 2012, but declined nearly $500,000 in 2013 as the California Solar Initiative expired midway through 2013. The California Solar Initiative provided annual incentive payments to the District for the first five years of production by the District's Robert O. Schulz Solar Farm.



- Labor expenses increased 5.6% in 2012 because of a combination of cost of living adjustments to wages, and increases to the contribution rates for the Public Employees Retirement System and for medical insurance.

- In 2013 the typical increases to wages, benefits, and payroll taxes, described in the preceding paragraph, were slightly more than offset by the change in the estimate for the compensated absences liability as mentioned earlier and in Note 2.

- The largest component of the 2013 increase to other operating and maintenance expense was the transfer of costs from the capital assets account for work-in-progress to materials and supplies expense. Construction in progress was adjusted during 2013 to write off $ $435,000 to expense. Further details are described in Note 6 of the financial statements.

- Another component of the 2013 increase to other operating and maintenance expense was from utilities expense which grew during 2013 by $151,000 mostly for two reasons. Usage of the Division 9 pressurized system grew in 2013, and pumping costs for the water treatment plant increased at the pipeline turnouts for Tracy and Manteca. These pumping costs are recovered by charging the respective cities for direct costs of service.

- In 2012 other operating and maintenance expense fell by more than $200,000 as conservation expense dropped $663,000 in 2012 because of the timing of the annual renewals of the program. The “2011 program” started in early 2011, but the “2012 program” started in the fall of 2011. Most of the costs are incurred in the first few months of each annual program, so 2011 bore higher costs than subsequent years because 2011 comprised the start of two annual programs instead of just one.

- Partially offsetting 2012's large drop in conservation expense was an increase to utilities expense of $295,000 mostly because 2012 was the first year of operation for the Division 9 pressurized distribution system. The pressurized system has a significant cost of electricity for the pumps that pressurize the pipelines. These costs are recovered with a special pressurization charge for the users of this service.

- General and administrative expense increased $595,000 in 2012 and decreased $418,000 in 2012 due to fluctuations in legal and consulting costs for the District's application to the San Joaquin County Local Agency Formation Commission for permission to provide retail electric distribution services.

- Net nonoperating revenues dropped $4.2 million in 2012 as distributions from Tri-Dam fell almost by half, partly because reduced river flows decreased the amount of hydro-electric generation in 2012. The other reason is that distributions in 2011 were $3.1 million greater than Tri-Dam earnings that year, and this relationship was not repeated in successive years.

- In 2013, net nonoperating revenues increase $1.25 million, in part because Proposition 13 subvention (property taxes collected by San Joaquin County) increased by $700,000 in 2013 due to improving real estate markets.

- Capital contributions dropped about $500,000 in 2012 and about $400,000 in 2013 as replacements of District facilities by property developers declined in those years.

- Change in net position decreased by $5.8 million in 2012 and grew by $4.2 million in 2013 as a consequence of all the revenue and expense changes.

Capital Assets and Debt Discussion

Summary of Capital Assets

For the Years Ended December 31

	2013	2012	2011
Land	$ 7,730,310	$ 7,730,310	$ 7,730,310
Construction in progress	122,483	938,878	13,605,186
Water treatment plant & transmission line	126,439,629	124,739,126	123,755,215
Other buildings	1,559,475	1,559,475	1,380,655
Solar generating plant	11,974,734	11,974,734	11,891,503
Irrigation system	105,348,804	103,477,629	91,317,346
Vehicles and equipment	14,195,596	13,847,658	6,225,194
Total	267,371,031	264,267,811	255,905,409
Less: accumulated depreciation	(61,892,391)	(55,256,630)	(49,035,917)
Net capital assets	$ 205,478,640	$ 209,011,181	$ 206,869,492

- Total capital assets increased $8.4 million in 2012 and $3.1 million in 2013.
- The 2012 increase in total capital assets was larger than usual and was due to the construction of the Division 9 pressurized delivery system in 2011 and 2012.
- The 2013 increase in capital assets comprised $1.7 million spent on the water treatment plant, mostly to replace water filters; $1.9 million on various irrigation distribution system improvements; and $348,000 for vehicles and equipment replacements.
- See Note 6 for additional information about capital assets.

Summary of Long Term Debt

For the Years Ended December 31

	2013	2012	2011
2012A bonds incl. original issue premium	$ 15,032,095	$ 17,438,745	
2008A certificates of participation			$ 19,125,000

- In 2012 the 2008A certificates of participation were defeased with the proceeds of the Revenue Refunding Bond Series 2012A.
- During 2012 total long term debt decreased $1.7 million due to the refunding described in Note 8 and principal payments made.

- During 2013 total long term debt decreased $2.4 million due to principal payments made.

- See Note 8 for additional information about long term debt.

Expectations for 2014

The Water Conservation Act of 2009, also known as California State Senate Bill SBx7-7, required the adoption of irrigation water prices that are based at least in part on the volume of water used, by July 31, 2012. The District complied with this new statute by adopting volumetric irrigation rates on July 31, 2012. During the 2013 irrigation season the District issued volumetric bills along with a notice that the bills are not to be paid. In 2014 the District will begin both billing and collecting volumetric charges. Before the adoption of volumetric rates, irrigation charges were based only on acreage at the rate of $24 per acre per year. The new volumetric rate adds a charge of $3 per acre-foot while continuing the $24 per acre charge. In 2014 irrigation revenues are expected to increase about $500,000 due mostly to the new volumetric charge. The volumetric rate approximately offsets the costs of billing the volumetric rate, including 20 year amortization of the capital costs of purchasing and installing flow meters, so there is no increment of financial benefit to the District from adding the $3 per acre-foot charge.

As of the date of this report, distributions to SSJID from the Tri-Dam organizations are expected to be about $5.2 million in 2014 which is well below the $7.3 million the District received in 2013. The decline is due to drought conditions in the Stanislaus River.

In 2009 the District filed an application with the San Joaquin County Local Agency Formation Commission ("LAFCo") for permission to provide retail electric distribution service within the District. LAFCo staff has indicated that a decision on the District's application may come as early as the last quarter of 2014. An approval would not assure that the District would proceed with the project. It would merely position the District's board of directors to re-evaluate the feasibility and benefits of the plan and make its own determination of whether to begin the project or not.

Requests for Information

This discussion is intended to provide management's perspective on the District's financial position and results of operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager of Finance and Administration, PO Box 747, Ripon, CA 95366.

Basic Financial Statements

South San Joaquin Irrigation District
Balance Sheets
December 31, 2013 and 2012

	2013	2012
ASSETS AND DEFERRED OUTFLOWS		
ASSETS		
Current Assets		
Cash & cash equivalents - unrestricted	$ 4,554,540	$ 11,173,985
Investments in marketable securities	26,513,746	28,928,287
Accounts receivable	3,403,628	3,361,449
Accrued interest receivable - unrestricted	378,148	309,139
Prepaid expenses	669,870	145,762
Inventories	155,580	151,701
Total Current Assets	35,675,512	44,070,323
Other Assets and Investments		
Cash & cash equivalents - restricted	1,867,293	758,688
Accrued interest receivable - restricted	16,828	30,947
Investments in securities - unrestricted (net of current amounts)	18,424,506	9,001,039
Investments in securities - restricted (reserves for debt service, construction, water treatment plant)	3,757,869	5,715,304
Notes and loans receivable (including accrued interest)	551,779	866,954
Investment in Tri-Dam Project	42,443,411	42,720,098
Total Other Assets and Investments	67,061,686	59,093,030
Capital Assets		
Non-depreciable	7,852,793	8,669,188
Depreciable	259,518,238	255,598,623
Less accumulated depreciation	(61,892,391)	(55,256,630)
Total Capital Assets	205,478,640	209,011,181
TOTAL ASSETS	308,215,838	312,174,534
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding of long term debt	512,864	678,270
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 308,728,702	$ 312,852,804

The accompanying notes to the financial statements are an integral part of this statement.

South San Joaquin Irrigation District
Balance Sheets
December 31, 2013 and 2012

	2013	2012
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	$ 267,227	$ 694,516
Construction contract retentions payable		236,090
Conservation program liability	832,548	798,014
Accrued expenses	356,706	331,050
Unearned revenue	1,318,931	1,319,595
Current portion of long-term debt	2,428,610	2,406,650
Compensated absences	659,993	659,490
Total Current Liabilities	5,864,015	6,445,405
Long-Term Liabilities		
Long-term debt	12,603,485	15,032,095
Net obligation for other post-employment benefits	99,475	92,198
Compensated absences	548,401	1,536,281
Total Long-Term Liabilities	13,251,361	16,660,574
TOTAL LIABILIITES	19,115,376	23,105,979
NET POSITION		
Net investment in capital assets	192,762,414	194,048,766
Restricted	5,641,990	6,504,939
Unrestricted	91,208,922	89,193,120
TOTAL NET POSITION	289,613,326	289,746,825
TOTAL LIABILITIES AND NET POSITION	$ 308,728,702	$ 312,852,804

The accompanying notes to the financial statements are an integral part of this statement.

South San Joaquin Irrigation District

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Irrigation sales	$ 1,519,118	$ 1,465,622
Treated water sales	6,572,247	6,258,240
Other water sales	4,046,973	25,016
Electric sales	840,994	1,398,632
Other	175,166	96,467
Total Operating Revenues	13,154,498	9,243,977
OPERATING EXPENSES		
Wages	6,801,726	6,140,709
Payroll taxes and benefits	4,004,736	4,750,345
Materials and supplies	2,225,012	1,906,054
Maintenance, repairs, and improvements	775,949	552,247
Utilities	1,171,292	1,020,540
Conservation	801,902	833,661
General and administrative	3,083,231	3,501,151
Depreciation	6,786,478	6,342,879
Total Operating Expenses	25,650,326	25,047,586
Net Loss From Operations	(12,495,828)	(15,803,609)
NONOPERATING REVENUES (EXPENSES)		
Proposition 13 subvention property taxes	3,990,902	3,272,619
Interest income	1,879,495	1,395,646
Changes in market value of investments	(1,524,286)	(1,064,023)
Interest expense	(389,581)	(527,311)
Debt issuance costs		(328,494)
Gain (loss) on property and equipment	92,082	34,622
Tri-Dam Power Authority distributions	750,000	1,000,000
Tri-Dam Project distributions	6,582,000	6,334,000
Undistributed earnings of Tri-Dam Project	(276,687)	(267,705)
Total Nonoperating Revenues (Expenses)	11,103,925	9,849,354
Net Income (Loss) before Contributions	**(1,391,903)**	**(5,954,255)**
Capital contributions	1,258,404	1,640,885
Change in Net Position	**(133,499)**	**(4,313,370)**
Net Position, Beginning of Year	289,746,825	294,060,195
NET POSITION, END OF YEAR	**$ 289,613,326**	**$ 289,746,825**

The accompanying notes to the financial statements are an integral part of this statement.

South San Joaquin Irrigation District
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 13,247,866	$ 9,279,325
Payments for goods and services	(12,888,412)	(12,122,734)
Payments to employees for services	(7,400,433)	(6,888,028)
Cash Used by Operating Activities	(7,040,979)	(9,731,437)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax receipts	3,854,691	3,263,918
Tri Dam Power Authority cash distributions	750,000	1,000,000
Cash Provided by Noncapital Financing Activities	4,604,691	4,263,918
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	1,258,404	954,298
Proceeds from the sale of capital assets	95,120	43,861
Purchase of capital assets	(3,927,879)	(11,560,422)
Advance refunding of long-term debt		(19,922,647)
Principal payments on long-term debt	(2,050,000)	(2,030,000)
Interest payments on long-term debt	(596,200)	(822,542)
Debt issuance costs paid		(328,494)
Proceeds from debt issuance		19,726,145
Cash Used by Capital and Related Financing Activities	(5,220,555)	(13,939,801)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,824,605	1,244,148
Purchases of investment securities	(52,693,345)	(81,371,560)
Proceeds from sales and maturities of investment securities	46,117,568	80,710,521
Decrease (Increase) in notes and loans receivable	315,175	80,805
Tri Dam Project cash distributions	6,582,000	6,334,000
Cash Provided by Investing Activities	2,146,003	6,997,914
Net Increase (Decrease) in Cash and Cash Equivalents	(5,510,840)	(12,409,406)
Cash and Cash Equivalents at Beginning of Year	11,932,673	24,342,079
Cash and Cash Equivalents at End of Year	**$ 6,421,833**	**$ 11,932,673**
RECONCILIATION OF CASH TO BALANCE SHEET		
Cash & cash equivalents - unrestricted	$ 4,554,540	$ 11,173,985
Cash & cash equivalents - restricted	1,867,293	758,688
Cash & cash equivalents - total	**$ 6,421,833**	**$ 11,932,673**

The accompanying notes to the financial statements are an integral part of this statement.

South San Joaquin Irrigation District
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION OF NET LOSS FROM OPERATIONS TO CASH USED FOR OPERATING ACTIVITIES		
Net Loss From Operations	$ (12,495,828)	$ (15,803,609)
Depreciation	6,786,478	6,342,879
(Increase) Decrease in operating assets		
Accounts receivable	94,032	34,486
Prepaid expenses	(524,108)	35,347
Inventories	(3,879)	25,921
Construction in process expensed	434,814	
Increase (Decrease) in operating liabilities		
Accounts payable	(427,289)	(340,551)
Conservation program liability	34,534	(121,052)
Accrued expenses	41,031	45,457
Unearned revenue	(664)	(4,594)
Net obligation for other post-employment benefits	7,277	20,078
Compensated absences	(987,377)	34,201
Cash Used by Operating Activities	**$ (7,040,979)**	**$ (9,731,437)**

	2013	2012
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Assets received as capital contributions	$ -	$ 686,587
Decrease in fair value of investments in marketable securities	(1,524,286)	(1,064,023)
Decrease in investment in Tri Dam Project, net of cash received	(276,687)	(267,705)
2012 construction in process below capitalization threshold, expensed in 2013 as operating expense	434,814	

The accompanying notes to the financial statements are an integral part of this statement.

Notes to the Basic Financial Statements

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Notes to the Basic Financial Statements

NOTE 1 – Organization and Description of Business

The South San Joaquin Irrigation District (District) was formed in 1909 and operates as a nonregulated special District of the State of California under the California Water Code, which authorizes the District to provide water, electricity, and related recreational facilities. The District provides and distributes irrigation water from the Stanislaus River to a region surrounding the cities of Manteca, Escalon and Ripon. The boundaries encompass about 72,200 acres. The District also owns and operates the Nick C. DeGroot Water Treatment Plant which processes potable water for the cities of Manteca, Escalon, Tracy, and Lathrop. The District is governed by an elected five member Board of Directors. The Board of Directors has the authority to fix rates and charges for the District's commodities and services. The District may also incur indebtedness, including issuing bonds, and is exempt from federal and state income taxes.

NOTE 2 – Summary of Significant Accounting Policies

Significant accounting policies are those where Generally Accepted Accounting Principles require the District to choose from allowable alternative methods.

A. Reporting Entity

Tri-Dam Project is a joint venture formed in 1948 under a joint cooperation agreement between the District and Oakdale Irrigation District for the purpose of operating the dams, reservoirs, canals, and hydroelectric generating plants jointly and equally owned by the District and the Oakdale Irrigation District. As required by Governmental Accounting Standards Board Statements numbers 14 and 61, these financial statements present the District as well as the District's one half share of the Tri-Dam Project because the District has an equity interest in Tri-Dam Project. Tri-Dam Project also issues separate financial statements which may be obtained by writing to PO Box 1158, Pinecrest, CA 95364-0158 or by sending an email message to clerk@tridamproject.com or on the web at http://www.tridamproject.com/reports.aspx.

The District is a member, with the Oakdale Irrigation District, in the Tri-Dam Power Authority which owns and operates dam, reservoir, and hydroelectric generating plant at Sandbar. The Tri-Dam Power Authority issues its own audited financial statements which may be obtained by writing to to PO Box 1158, Pinecrest, CA 95364-0158 or by sending an email message to clerk@tridamproject.com or on the web at http://www.tridamproject.com/reports.aspx. These financial statements do not include the Tri-Dam Power Authority because the District has only a residual interest, not an equity interest, in the assets of Tri-Dam Power Authority.

The District is a member of the San Joaquin River Group Authority (SJRGA), and also of the San Joaquin Tributaries Authority (SJTA). The SJRGA was created in 1996 as a joint powers authority consisting of the District, Modesto Irrigation District, Oakdale Irrigation District, Turlock Irrigation District, Friant Water Users Authority, and San Joaquin River Exchange Contractors Water Authority in order to represent these organizations in the investigation, monitoring, planning, control, mitigation of water issues, and enhancement of the environmental conditions in the Delta which impact the members. The agreement terminates in December 2036, unless extended by the participants. The SJTA was formed in 2012 for similar purposes with the District, Modesto Irrigation District, Oakdale Irrigation District, Turlock Irrigation District, and the City and County of San Francisco as members. These financial statements do not include the SJRGA or the SJTA because the District has only a residual interest, not an equity interest, in the assets of these entities. Both the SJRGA and the SJTA issue financial statements which can be obtained by contacting the executive director of the SJTA at http://calsmartwater.org/contact/.

B. Basis of Accounting

These financial statements are prepared in conformity with generally accepted accounting principles ("GAAP") in the United States of America. The Governmental Accounting Standards Board ("GASB") is the acknowledged standard setting body for accounting and financial reporting standards followed by government entities in the United States. The District is presented as a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where activities are financed in whole or in substantial part by fees charged in exchange for goods and service provided by the District. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, so revenues are recognized when earned rather than when received, and expenses are recorded when incurred rather than when paid.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standard Board ("FASB") prior to December 1, 1989, are followed in the District's financial statements to the extent that those standards do not conflict with or contradict GASB statements. The District also has the option of following subsequent private-sector guidance subject to this same limitation.

Internal transactions between operating divisions of the District have been recorded for management purposes. These internal transactions have been eliminated to avoid double counting of revenues and expenses in the consolidated financial statements.

GASB requires a distinction in the financial statements between operating and nonoperating revenues and expenses, but GASB has not established a standard for the distinction. The District classifies as operating revenues those charges for goods and services which constitute the primary business activities of the District. Operating expenses are those required to provide the primary goods and services of the District and to earn the operating revenues. Nonoperating revenues generally result from nonexchange transactions, financing transactions, or ancillary activities.

C. Cash and Cash Equivalents

GAAP allows a financial statement issuer to choose the focus of the statement of cash flows as either cash or "cash and cash equivalents". The District reports restricted and unrestricted cash, including bank deposits and the District's investment in the State of California Local Agency Investment Fund (LAIF), as well as cash equivalents in the statement of cash flows. The District defines cash equivalents as certain highly liquid investments with an original maturity of three months or less, including only money market mutual funds. Other securities with an original maturity of three months or less not meeting this definition are not reported as cash equivalents.

D. Investment Basis

All investments are carried at their fair market value. Market values may have changed significantly after year-end.

E. Restricted Assets

The use of some assets can be restricted to certain purposes by law, by grantors of the assets, or by contracts to which the District is a party. When the District has a choice to use either restricted or unrestricted funds the District's policy is normally to use restricted funds first. The debt service reserve is established under the terms of the 2012A Revenue Refunding Bonds to be used in the event of inadequate funds to pay debt service. The capital replacement reserve of the water treatment plant is funded by the cities under an agreement that limits the use of those funds to the cost of capital assets of the water treatment plant.

F. Accounts Receivable

Trade and property tax receivables are not shown net of an allowance for uncollectible amounts because the amounts estimated by management to be uncollectible are deemed immaterial. Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate is limited generally to one percent of assessed value, and can be levied by only the county, and shared by applicable jurisdictions within the county. The County of San Joaquin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due to the county on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the year for which they are levied.

G. Inventory

Inventories are valued at cost based upon physical determinations made at the end of each year. Inventories are assumed to be consumed on the "last in, first out" basis.

H. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

I. Capital Assets

Property, plant, equipment and infrastructure are reported at historical cost. Items costing at least $10,000 with an estimated useful life of at least two years are capitalized. The District capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset. Donated property and assets constructed by developers are recorded at estimated fair market value at the date of donation. Depreciation is provided using the straight-line method for assets other than land. Estimated useful lives as are follows:

Assets	Years
Dams, canals and distributor laterals	25-100
Pumping equipment and turbines	10-50
Drainage laterals	40-100
Buildings	19-40
Machinery and equipment	5-20
Office equipment	3-15
Vehicles and trucks	4-10

J. Conservation Liability

The District offers an on-farm conservation program, where the District reimburses irrigators for part of the cost of installing qualifying conservation measures in order to improve efficiency of use of the District's water resource. Under the on-farm program, an irrigator proposes new water conservation measures for their farm under guidelines issued by the District. The District determines whether the proposal qualifies, and if it does, then the District commits to reimburse the farmer for a portion of the cost of the approved measures subject to installation by the farmer and inspection by the District. When the District initially approves an irrigator's conservation proposal, it records a liability for the expected reimbursement amount. Once the conservation measures are installed and satisfactorily inspected, the District pays the cost-share reimbursement to the farmer and relieves the liability for that project.

K. Compensated Absences

The total amount of liability for compensated absences is reflected in the basic financial statements. It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is liability for all unpaid vacation time and for varying portions of unpaid accumulated sick leave. According to the District's collective bargaining agreements with its employees, upon retirement or other termination of employment, the value of an employee's unused vacation time, and a varying portion of unused sick leave, will be paid to the employee. Instead of receiving cash for unused sick leave upon retirement, qualified employees may elect to exchange some or all of their unused sick leave for post-employment healthcare benefits ("OPEB"). The financial statements report the amount of the liability for OPEB estimated by a professional actuary as explained in note 12. The amount of the OPEB liability depends on an actuarial estimate of how many sick leave hours, attributable to past service as of the balance sheet date, will eventually be exchanged for OPEB. Beginning with 2013 this quantity of sick leave hours is excluded from the estimation of the compensated absences liability.

L. Long-Term Debt

Bond premiums and deferred amounts on refunding are deferred and amortized over the life of the related debt. Bonds payable are reported net of the applicable bond premium. Deferred amounts on refunding are reported as deferred inflows or outflows of resources on the balance sheet. Debt issuance costs are expensed as incurred.

M. Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

N. Reclassification

The net obligation for other postemployment benefits at December 31, 2012 was reclassified from accrued expenses. This reclassification had no effect on total assets, liabilities, net position, or change in net position.

NOTE 3 – Cash and Investments

A. Classification

Cash and investments are classified in the financial statements as shown below at December 31, 2013 and 2012:

	2013	2012
Cash and cash equivalents - unrestricted	$ 4,554,540	$ 11,173,985
Cash and cash equivalents - restricted	1,867,293	758,688
Total cash and cash equivalents	**6,421,833**	**11,932,673**
Investments in marketable securities - current portion, unrestricted	26,513,746	28,928,287
Investments in marketable securities - noncurrent portion, unrestricted	18,424,506	9,001,039
Investments in securities - restricted (reserves for debt service, construction, water treatment plant)	3,757,869	5,715,304
Total investments in marketable securities	**48,696,121**	**43,644,630**
Total cash and investments	**$ 55,117,954**	**$ 55,577,303**

B. Investment Policy

Under the provisions of the District's investment policy, and in accordance with California Government code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One issuer
Bonds issued by the District	5 years	N/A	None	N/A
Obligations issued by United States government or its agencies	5 years	N/A	None	None
Obligations of any state or any local agency within any state in the United States	5 years	N/A	None	None
Bankers acceptances	180 days	N/A	40%	30%
Commercial paper	270 days	AAA/Aaa	25%	10%
Negotiable certificates of deposits	5 years	N/A	30%	None
Medium term corporate notes	5 years	A	30%	None
California Local Agency Investment Fund	N/A	N/A	None	None
Collateralized obligations and mortgage backed bonds	5 years	A	20%	None
Repurchase agreements	1 year	N/A	None	None
Money market funds	N/A	AAA/Aaa*	20%	10%

*Must have highest rating from two nationally recognized statistical organizations.

The following table summarizes investments that are authorized by the District's long-term debt agreement, which are not subject to the limitations of the California Government Code:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One issuer
Cash	N/A	FDIC insured or collateralized	N/A	N/A
US Treasury obligations	N/A	N/A	N/A	N/A
US agency obligations representing full faith and credit of United States	N/A	N/A	N/A	N/A
Federal National Mortgage Association	N/A	N/A	N/A	N/A
Federal Home Loan Mortgage Corporation	3 years	AAA/Aaa	N/A	N/A
Deposit accounts, CDs, federal funds and banker's acceptances with domestic banks	360 days	FDIC insured or: A-1, A-1+, or P-1	N/A	N/A
Commercial paper	270 days	A-1+/P-1	N/A	N/A
Money market fund	N/A	AAAm/AAArn-G	N/A	N/A
Pre-refunded municipal obligations from any US state	N/A	Highest of Moody's or S & P	N/A	N/A
Investment Agreements supported by opinions of counsel	N/A	AA by S&P	N/A	N/A
Local Agency Investment Fund	N/A	N/A	N/A	N/A

C. Interest Rate Risk and Credit Risk

Interest rate risk is the risk that increases in market interest rates will decrease the market value of an investment. Normally, the longer the remaining maturity of an investment, the greater is the sensitivity of its market value to changes in the market interest rates. The District's investment policy limits exposure to interest rate risk by requiring that maturities be planned to accommodate the District's operating cash flow forecast so that securities can be held to maturity to avoid realizing losses on premature sales. Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. Information about the interest rate risk and the credit risk of the District's investments is provided by the following table that shows the District's investments by maturity as of December 31, 2013 and the credit ratings assigned.

Notes to the Basic Financial Statements

2013 INVESTMENTS BY MATURITY AND RATINGS

Category	Moody's or S&P Rating	2014	2015	2016	2017	Total
			Year of Maturity			
US agencies						
	AA+	$ -	$ -	$ -	$ 2,956,740	$ 2,956,740
State and municipal debt						
	A	3,133,285	339,899			3,473,184
	A-	661,740				661,740
	A Insured	966,323	750,609			1,716,932
	A- Insured		100,305			100,305
	A+	142,823	316,896			459,719
	A+ Insured	99,729				99,729
	A1 Insured	782,966	215,111			998,077
	A2	959,554				959,554
	A2 Insured	2,858,724	1,949,857	380,654		5,189,235
	A3 Insured	101,577				101,577
	AA	1,112,266	778,235	846,668		2,737,169
	AA-	810,538	422,527			1,233,065
	AA- Insured	2,502,860	100,279			2,603,139
	AA+	1,281,610	608,784			1,890,394
	AA+ Insured	204,941				204,941
	Aa1	284,562	205,668			490,230
	Aa1 Insured	256,265				256,265
	Aa2	759,935	159,293			919,228
	Aa2 Insured	358,937				358,937
	Aa3	2,531,436				2,531,436
	Aa3 Insured	149,594	523,164			672,758
	AAA	2,041,312	3,006,105			5,047,417
	Baa1 Insured	2,612,718	2,582,454			5,195,172
	M1G1		236,001			236,001
	SP-1		199,116			199,116
Total state and municipal debt		24,613,695	12,494,303	1,227,322		38,335,320
Negotiable certificates of deposit						
	FDIC Insured	2,698,726	2,691,655			5,390,381
Corporate notes						
	Baa2	2,013,680				2,013,680
Total		**$ 29,326,101**	**$ 15,185,958**	**$ 1,227,322**	**$ 2,956,740**	**$ 48,696,121**

Information about the interest rate risk and the credit risk of the District's investments is provided by the following table that shows the District's investments by maturity as of December 31, 2012 and the credit ratings assigned.

2012 INVESTMENTS BY MATURITY AND RATINGS

Category	Moody's or S&P Rating	Year of Maturity 2013	2014	2015	2017	Total
US agencies						
	AA+	$ -	$ -	$ -	$ 3,984,821	$ 3,984,821
State and municipal debt						
	A	125,323		216,466		341,789
	A insured	973,086				973,086
	A-	514,272	407,980			922,252
	A- insured	976,955				976,955
	A+		212,476			212,476
	A+ insured	334,902	968,087			1,302,989
	A1	255,858				255,858
	A1 insured	401,993				401,993
	A2	410,484				410,484
	AA	859,693	133,970			993,663
	AA insured	781,399				781,399
	AA-	356,067	207,908			563,975
	AA- insured	4,008,379	757,916			4,766,295
	AA+	526,147	601,197			1,127,344
	AA+ insured	254,446				254,446
	Aa1	1,755,485				1,755,485
	Aa2	100,948				100,948
	Aa2 insured	204,696				204,696
	Aa3		465,993			465,993
	Aa3 insured	776,611				776,611
	AAA	1,088,583				1,088,583
	AAA insured	100,958				100,958
	M1G1	6,049,335		240,125		6,289,460
	Baa2 insured	1,057,710	1,144,269			2,201,979
	A3 insured	51,169				51,169
	Escrowed to maturity insured	50,660				50,660
	BBB insured	1,676,725				1,676,725
Total state and municipal debt		23,691,884	4,899,796	456,591		29,048,271
Negotiable certificates of deposit						
	FDIC Insured	5,635,626	1,470,899	489,733		7,596,258
Corporate notes						
	A	1,004,620				1,004,620
	BBB+	2,010,660				2,010,660
Total corporate notes		3,015,280				3,015,280
Total		**$ 32,342,790**	**$ 6,370,695**	**$ 946,324**	**$ 3,984,821**	**$ 43,644,630**

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429.1 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury notes and bills, and corporations.

D. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U.S. Treasury securities, mutual funds, and external investment funds, which represent 5% or more of total District-wide investments were as follows at December 31, 2013.

Issuer	Investment Type		Amount
State of California	Municipal Bonds	$	3,285,847
Federal National Mortgage Association	U. S. Agencies		2,956,740

Investments in the securities of any individual issuer, other than U.S. Treasury securities, mutual funds, and external investment funds, that represent 5% or more of total District-wide investments were as follows at December 31, 2012.

Issuer	Investment Type		Amount
Federal National Mortgage Association	U. S. Agencies	$	3,984,821

At December 31, 2013, cash included $2,660,506 held in commercial banks all of which was either insured by the Federal Deposit Insurance Corporation or collateralized as required by State Law (Government Code Section 53630). At December 31, 2012, cash included $2,279,861 held in commercial banks of which 100% was insured by the Federal Deposit Insurance Corporation. On November 9, 2010 the FDIC implemented section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance for noninterest-bearing demand accounts for the period of December 31, 2010 through December 31, 2012.

NOTE 4 – Accounts and Notes Receivable

Accounts receivable are composed of the following elements:

	2013	2012
Proposition 13 subvention	$ 1,959,614	$ 1,823,403
Water treatment plant sales	1,077,537	1,168,314
Irrigation charges	354,342	326,891
PG&E		30,850
Miscellaneous	12,135	11,991
Total	$ 3,403,628	$ 3,361,449

Notes and loans receivable consist of one significant amount at December 31, 2013 and two significant amounts at December 31, 2012. The first is a note receivable from a real estate development firm in the principal amount of $503,647 and accrued interest of $48,132 at December 31, 2013, and accrued interest of $38,059 at December 31, 2012. This note is for reimbursement to the District for costs to build irrigation facilities which the developer was responsible to provide to the District under the terms of a developers agreement. During 2012 the parties agreed to reduce the amount of this note by $63,125 in recognition of the fact that the developer does not own a portion of the property on which the improvements were built. Also during 2012 the annual interest rate was reduced from 4.5% to 2.25% retroactive to the inception of the note on July 28, 2009. From June 1, 2012 forward the interest rate is variable with a minimum annual rate of 2%. The minimum rate of 2% has been in effect since June 1, 2012 through the date of this report. The developer is dividing property in order to sell building lots. Upon the sale of each lot, $1,500 is due the District for payment of interest and principal until all interest and principal is paid. Any principal and interest remaining unpaid on June 1, 2017 is due on that date.

The second item in notes and loans receivable at December 31, 2012 is a loan to the State of California. Under the provisions of Proposition 1A and as part of the 2009/10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special Districts (excluding redevelopment agencies). The amount of this borrowing pertaining to the District at December 31, 2012 was $306,838, plus accrued interest of $18,410. This loan bore interest at 2% per annum. The state repaid this borrowing plus interest in 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten year period.

NOTE 5 – Investment in the Tri-Dam Project

The District has a fifty percent investment in the Tri-Dam Project. The Tri-Dam Project's condensed audited financial data is presented below.

Condensed Balance Sheets
For the Years Ended December 31, 2013 and 2012

	2013	2012
Current assets	$ 19,749,272	$ 23,539,134
Capital assets	59,230,494	60,443,538
Deferred outflows	7,193,773	2,742,289
Total assets and deferred outflows	$ 86,173,539	$ 86,724,961
Current liabilities	$ 1,046,439	$ 1,093,274
Noncurrent liabilities	240,278	191,492
Total liabilities	1,286,717	1,284,766
Net investment in capital assets	59,230,494	60,443,538
Unrestricted net position	25,656,328	24,996,657
Total net position	84,886,822	85,440,195
Total liabilities and net position	$ 86,173,539	$ 86,724,961

Condensed Statements of Revenues, Expenses, & Changes in Net Assets
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating revenues	$ 22,500,866	$ 20,489,380
Operating expenses	10,364,681	7,783,142
Net Income from Operations	12,136,185	12,706,238
Nonoperating Revenues (Expenses)		
Beardsley boat launch grant revenue	1,472,435	48,565
Investment earnings	43,659	27,719
Water sales	128,226	97,057
Rental of equipment and facilities	64,797	56,811
(Loss) gain on disposal of capital assets	(72,110)	12,087
Other nonoperating revenue	16,502	171,833
Reimbursements	171,560	24,161
Fish and water quality studies	(1,080,849)	(736,346)
Goodwin Dam expenses	(269,778)	(275,534)
Total Nonoperating Revenues (Expenses)	474,442	(573,647)
Change in Net Position	12,610,627	12,132,591
Net position, beginning of year	85,440,195	85,975,604
Less: distributions to OID and SSJID	(13,164,000)	(12,668,000)
Net Position, End of Year	$ 84,886,822	$ 85,440,195

Notes to the Basic Financial Statements

NOTE 6 – Capital Assets

Changes in capital assets accounts for the year ended December 31, 2013 are summarized below:

	December 31, 2012	Additions	Disposals	Transfers and Adjustments	December 31, 2013
Capital assets not being depreciated:					
Land	$ 1,382,984	$ -	$ -	$ -	$ 1,382,984
Water treatment plant land	5,834,926				5,834,926
Solar Land	512,400				512,400
Construction in progress - Irrigation	833,143	1,672,355		(2,383,015)	122,483
Construction in progress - WTP	105,735	62,647		(168,382)	
Total	8,669,188	1,735,002		(2,551,397)	7,852,793
Capital assets being depreciated:					
Improvements	413,967	9,980		56,230	480,177
Dams, canals, and laterals	103,063,663			1,804,964	104,868,628
Buildings	1,559,475				1,559,475
Vehicle and excavators	3,717,079	333,047	(153,757)		3,896,369
Machinerey and equipment	9,719,246	27,232		87,008	9,833,486
Water treatment plant ("WTP") vehicles	411,333	54,409			465,741
WTP improvements	629,600			535	630,135
WTP building and equipment	49,773,575	162,759		44,977	49,981,311
WTP original construction	64,603,512	1,369,362		122,870	66,095,744
WTP pump stations - original construction	9,732,439				9,732,439
Solar plant	11,974,734				11,974,734
Total	255,598,623	1,956,789	(153,757)	2,116,584	259,518,238
Less accumulated depreciation:					
Improvements	(173,789)	(25,558)			(199,347)
Dams, canals, and laterals	(29,131,358)	(2,208,892)			(31,340,250)
Buildings	(535,656)	(33,040)			(568,696)
Vehicle and excavators	(2,298,983)	(335,060)	152,493		(2,481,550)
Machinerey and equipment	(1,542,828)	(327,937)			(1,870,765)
Water treatment plant ("WTP") vehicles	(263,128)	(34,344)			(297,472)
WTP improvements	(93,605)	(48,811)			(142,416)
WTP building and equipment	(7,509,443)	(1,283,450)			(8,792,893)
WTP original construction	(9,437,500)	(1,664,322)			(11,101,822)
WTP pump stations - original construction	(1,946,489)	(324,416)			(2,270,905)
Solar plant	(2,323,851)	(502,423)			(2,826,275)
Total	(55,256,630)	(6,788,253)	152,493		(61,892,391)
Net Depreciable Capital Assets	200,341,993	(4,831,464)	(1,264)	2,116,584	197,625,849
Net Capital Assets	$ 209,011,181	$ (3,096,462)	$ (1,264)	$ (434,813)	$ 205,478,640

Notes to the Basic Financial Statements

Changes in capital assets accounts for the year ended December 31, 2012 are summarized below:

	December 31, 2011	Additions	Disposals	Transfers and Adjustments	December 31, 2012
Capital assets not being depreciated:					
Land	$ 1,382,984	$ -	$ -	$ -	$ 1,382,984
Water treatment plant land	5,834,926				5,834,926
Solar Land	512,400				512,400
Construction in progress - Irrigation	13,582,979	5,897,352		(18,647,188)	833,143
Construction in progress - WTP		1,012,924		(907,189)	105,735
Construction in progress - Solar	22,207	61,024		(83,231)	
Total	21,335,496	6,971,300		(19,637,608)	8,669,188
Capital assets being depreciated:					
Improvements	243,015			170,952	413,967
Dams, canals, and laterals	91,074,331	822,827		11,166,505	103,063,663
Buildings	1,380,655			178,820	1,559,475
Vehicle and excavators	3,227,020	607,012	(116,953)		3,717,079
Machinerey and equipment	2,572,388	15,947		7,130,911	9,719,246
Water treatment plant ("WTP") vehicles	425,786		(14,453)		411,333
WTP improvements	629,600				629,600
WTP building and equipment	49,759,497	14,078			49,773,575
WTP original construction	63,633,679	62,644		907,189	64,603,512
WTP pump stations - original construction	9,732,439				9,732,439
Solar plant	11,891,503			83,231	11,974,734
Total	234,569,913	1,522,508	(131,406)	19,637,608	255,598,623
Less accumulated depreciation:					
Improvements	(158,417)	(15,372)			(173,789)
Dams, canals, and laterals	(27,141,434)	(1,989,924)			(29,131,358)
Buildings	(506,342)	(29,314)			(535,656)
Vehicle and excavators	(2,090,245)	(316,451)	107,713		(2,298,983)
Machinerey and equipment	(1,353,119)	(189,709)			(1,542,828)
Water treatment plant ("WTP") vehicles	(251,823)	(25,758)	14,453		(263,128)
WTP improvements	(44,745)	(48,860)			(93,605)
WTP building and equipment	(6,238,177)	(1,271,266)			(7,509,443)
WTP original construction	(7,811,220)	(1,626,280)			(9,437,500)
WTP pump stations - original construction	(1,622,074)	(324,415)			(1,946,489)
Solar plant	(1,818,321)	(505,530)			(2,323,851)
Total	(49,035,917)	(6,342,879)	122,166		(55,256,630)
Net Depreciable Capital Assets	185,533,996	(4,820,371)	(9,240)	19,637,608	200,341,993
Net Capital Assets	$ 206,869,492	$ 2,150,929	$ (9,240)	$ -	$ 209,011,181

Construction in progress was adjusted during 2013 to write off $434,813 to expense. Of this amount, $423,559 was the cost of a project to acquire and install flow meters throughout the irrigation distribution system. When the project was started the cost of the individual meters together with labor required to place each meter in service was expected to exceed the minimum required to capitalize the individual assets. When it was discovered that the costs did not reach the capitalization cost threshold they were reclassified from construction work in progress to expense.

NOTE 7 – Operating Leases

The District utilizes various pieces of equipment that are leased under a number of non-cancelable operating leases. These leases contain renewal options for additional future periods. Minimum rental payments due under the leases for future calendar years are as follows:

2014	$ 36,641
2015	28,163
2016	14,573
Total	$ 79,377

NOTE 8 – Long-term Liabilities

A. Description of individual long-term debt issues outstanding

Long-term debt at December 31, 2013 and 2012 consists of Refunding Revenue Bonds Series 2012A issued on May 3, 2012 in an advance refunding of all the outstanding Revenue Certificates of Participation Series 2008A. The Series 2008A Revenue Certificates of Participation were issued on July 1, 2008 in the original amount of $25,000,000 and the proceeds were for construction of a solar power generating plant and capital improvements to the District's irrigation transmission and distribution system. Series 2012A was issued in the original amount of $17,975,000 plus an original issue premium of $1,751,145. The Bonds are secured by a lien on the net water system revenues. The terms of the Bonds require the District to annually collect net revenues of at least 125% of annual debt service, after subtracting operating and maintenance expenses. Debt service requires principal payments, ranging from $2,110,000 to $2,545,000 due on October 1 annually through 2019, and semi-annual interest payments, ranging from $50,900 to $267,350, due on April 1 and October 1 through 2019. Coupon rates range from 3.0% to 4.0%.

B. Required disclosure of long term debt activity

Activity during the years ending December 31, 2013 and 2012, in the long-term debt accounts, was as shown in the following tables:

	December 31, 2012	Additions	Reductions	December 31, 2013	Due Within One Year
Long-Term Liabilities					
2012A Refunding Revenue Bonds	$ 15,945,000	$ -	$ (2,050,000)	$ 13,895,000	$ 2,110,000
Original issue premium on 2012A Refunding Bonds	1,493,745		(356,650)	1,137,095	318,610
Subtotal long term debt	17,438,745		(2,406,650)	15,032,095	2,428,610
Net obligation for other post-employment benefits	92,198	93,288	(86,011)	99,475	
Compensated absences	2,195,771	474,604	(1,461,981)	1,208,394	659,993
Total long term liabilities	$ 19,726,714	$ 567,892	$ (3,954,642)	$ 16,339,964	$ 3,088,603
Deferred Outflows					
Deferred amount on refunding of 2008A Certificates of Participation	$ (678,270)	$ -	$ 165,406	$ (512,864)	$ (147,764)

	December 31, 2011	Additions	Reductions	December 31, 2012	Due Within One Year
Long-Term Liabilities					
2008A Revenue Certificates of Participation	$ 19,125,000	$ -	$ (19,125,000)	$ -	$ -
2012A Refunding Revenue Bonds	-	17,975,000	(2,030,000)	15,945,000	2,050,000
Original issue premium on 2012A Refunding Bonds	-	1,751,145	(257,400)	1,493,745	356,650
Subtotal long term debt	19,125,000	19,726,145	(21,412,400)	17,438,745	2,406,650
Net obligation for other post-employment benefits	72,120	89,330	(69,252)	92,198	
Compensated absences	2,161,569	593,001	(558,799)	2,195,771	659,490
Total long term liabilities	$ 21,358,689	$ 20,408,476	$ (22,040,451)	$ 19,726,714	$ 3,066,140
Deferred Outflows					
Deferred amount on refunding of 2008A Certificates of Participation	$ -	$ (797,647)	$ 119,377	$ (678,270)	$ (165,406)

C. Debt service requirements to maturity

Debt service requirements to maturity, for years ending December 31, are as follows:

	Principal	Interest	Total
2014	$ 2,110,000	$ 534,700	$ 2,644,700
2015	2,180,000	471,400	2,651,400
2016	2,260,000	384,200	2,644,200
2017	2,355,000	293,800	2,648,800
2018	2,445,000	199,600	2,644,600
2019	2,545,000	101,800	2,646,800
Total	$ 13,895,000	$ 1,985,500	$ 15,880,500

D. Advance Refunding

On May 3, 2012 the District issued Refunding Revenue Bonds Series 2012A in an advance refunding of all the outstanding Revenue Certificates of Participation Series 2008A. The advance refunding resulted in a difference of $797,647 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged as an addition to interest expense through the year 2019 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 7 years by $1,413,529 to $20,826,841 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,387,455.

E. Defeasance of Debt

In 2012 the District defeased the 2008A Revenue Certificates of Participation by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2013 there were no outstanding certificates of participation considered defeased as the remaining certificates of participation were called during 2013. At December 31, 2012, $17,035,000 of outstanding certificates of participation were considered defeased.

F. Pledged Revenues

The District has pledged future water system revenues, net of specified operating expenses, to repay its Refunding Revenue Bonds Series 2012A, in the original amount of $17,975,000. Proceeds of the Bonds were used to refund a debt issuance as described above. The Bonds are payable solely from net water system revenues and are payable through October 2019. Annual principal and interest payments on the Bonds are expected to require approximately 75% of net revenues in 2014. Total principal and interest remaining to be paid on the Bonds were $15,880,500 and $18,526,700 at December 31, 2013 and 2012 respectively. Cash basis principal and interest paid on the Bonds were $2,646,200 and $2,667,651 (including interest payment on 2008 Bonds included in coverage calculation) and total water system net revenues calculated in accordance with the covenants were $6,490,055 and $5,722,666 at December 31, 2013 and 2012, respectively.

G. Rate Stabilization Fund

The District's debt agreement allows the District to establish a rate stabilization fund to assist in meeting the required debt service coverage ratio. Amounts deposited in the rate stabilization fund are included as expenses for purposes of the debt service coverage ratio in the year deposited and amounts withdrawn from the rate stabilization fund are included as revenues for purposes of the debt service coverage ratio in the year withdrawn.

NOTE 9 – Net Position

Net position, formerly called net assets, is the excess of all the District's assets and deferred outflows over all its liabilities and deferred inflows. Net position is divided into three components.

"Net investment in capital assets" describes the portion of net position which represents the net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets. If a material amount of such debt remains unspent, that amount of the debt is excluded from the calculation of net investment in capital assets. Net investment in capital assets is made up of the following components as of December 31, 2013 and 2012:

	2013	**2012**
Total capital assets, net of accumulated depreciation	$ 205,478,640	$ 209,011,181
Less current portion LT debt	(2,428,610)	(2,406,650)
Less noncurrent portion LT debt	(12,603,485)	(15,032,095)
Add deferred amount on refunding of 2012A Refunding Revenue Bonds	512,864	678,270
Add Unspent Proceeds of Debt:		
Debt service reserve fund	1,803,005	1,798,060
Total	**$ 192,762,414**	**$ 194,048,766**

The second component of net position is restricted net position, which consists of restricted assets less related liabilities. Restricted assets are assets whose use has been restricted to certain purposes by law, by grantors of the assets, by enforceable legislative acts of the District's Board of Directors, or by contracts to which the District is a party. The following table shows the composition of restricted net position for December 31, 2013 and 2012.

	2013	2012
Debt service reserve	$ 1,803,005	$ 1,798,060
Water treatment plant funds	3,822,157	4,675,932
Accrued interest receivable on restricted investments	16,828	30,947
Total	**$ 5,641,990**	**$ 6,504,939**

The third component of net assets is unrestricted net position, which is simply the amount of net position that does not qualify as either restricted net position, or as net investment in capital assets. Included in the amount of unrestricted net position is the rate stabilization fund of $2,488,590 established by the Board of Directors under the provisions of the indenture of trust for the Refunding Revenue Bonds Series 2012A and committed by the Board to supplement the debt service coverage ratio as necessary and as permitted by the bond indenture.

NOTE 10 – Capital Contributions

Capital contributions consist of cash and other property contributed to the District. Noncash contributed assets are recorded at estimated fair market value at the date of donation. The District recognized capital contributions from various sources as follows:

	2013	2012
Developers	$ -	$ 623,462
Municipal customers of water treatment plant	1,140,929	937,836
Irrigation customers	37,402	
U. S. Natural Resources Conservation Service	80,073	79,587
	$ 1,258,404	$ 1,640,885

NOTE 11 – Retirement Plan

Plan Description

The District contributes to the Miscellaneous Plan of the South San Joaquin Irrigation District, a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (PERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statute and the District's Board of Directors. The District employees that were members of PERS as of January 1, 2013 participate in the 2.5% at 55 risk pool. Employees who were not members of PERS as of January 1, 2013 participate in the 2% at 62 risk pool.

PERS issues a publicly available financial report that includes financial statements and required supplementary information. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Plan participants are required to contribute 8 percent of their annual covered salary. The District makes 50% of the contributions required of general bargaining unit employees, under the memorandum of understanding, and all of the contribution required of management employees. The District is required to contribute at an actuarially determined rate; the rate for the period ended December 31, 2013 was 18.324%, the rate for the period ended June 30, 2013 was 17.671%, and the rate for the period ended June 30, 2012 was 17.041%, of covered payroll. The contribution requirements of plan members and the District are established and may be amended by

PERS. The District's contributions for the years ended December 31, 2013, 2012, and 2011 were $1,544,005, $1,400,644, and $1,227,429 respectively.

NOTE 12 – Other Post-employment Benefits

Plan Description

The District provides a defined benefit other postemployment benefits (OPEB) healthcare plan (the Plan) that provides medical benefits to retired employees and their eligible dependents. The Plan has a maximum benefit ranging up to 100% of healthcare premiums for up to 180 months. The amount of the benefit depends on the employee's number of unused sick days at the retirement date, length of employment and bargaining unit membership. Upon retirement, if qualified, the employee elects whether to participate in the Plan by exchanging sick days for months of health insurance coverage or take a payment of accrued sick leave as described in Note 2K. Employees that elect to take a payment for accrued sick leave do not participate in the Plan. The District's Board of Directors has the authority to establish and amend benefit provisions. The Plan does not issue separate financial statements.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The required contribution is based on prefunding of OPEB liabilities through the irrevocable trust account with the California Employers' Retiree Benefit Trust. During the years ended June 30, 2013 and 2012, the District made health insurance premium payments on behalf of retirees of $86,011 and $69,252, in lieu of payments to the irrevocable trust. Plan members did not make any contributions to the Plan.

Annual OPEB Cost and Net OPEB Cost (Expense)

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the years ended June 30, 2013 and 2012, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation:

	2013	2012
Annual required contribution end of year	$ 88,007	$ 88,384
Interest on net OPEB obligation	6,509	5,092
Adjustment to annual required contribution	(1,228)	(4,146)
Annual OPEB cost (expense)	93,288	89,330
Contributions made including credited interest	(86,011)	(69,252)
Increase (decrease) in net OPEB obligation	7,277	20,078
Net OPEB obligation, beginning of period	92,198	72,120
Net OPEB obligation, end of period	$ 99,475	$ 92,198

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for the three most recent years are as follows:

Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$ 76,086	102.74%	$ 72,120
2012	89,330	77.52%	92,198
2013	93,288	92.20%	99,475

Funded Status and Funding Progress

The funded status of the Plan as of December 31, 2013 and 2012, from the Plan's most recent actuarial valuation, was as follows:

	2013	2012
Actuarial accrued liability (AAL)	$ 2,145,567	$ 2,059,285
Value of plan assets	2,262,126	2,042,811
Unfunded actuarial accrued liability (asset) "UAAL"	$ (116,559)	$ 16,474
Funded ratio (value of plan assets/AAL)	105.43%	99.20%
Covered payroll (active plan participants)	$ 6,741,726	$ 6,080,709
UAAL as a percentage of covered payroll	-1.73%	0.27%

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 trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members 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.

In the July 1, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial valuation used the rates of mortality, disability and other withdrawals used by PERS in the valuation of the District's pension plan. The actuarial assumptions included a 7.06 percent investment rate of return, healthcare premium increases starting at 9.5 percent and declining to 5.0 percent for 2021 and later, and projected salary increases of 3.25 percent. The UAAL is being amortized over a level percentage of projected payroll over a 30 year open period.

NOTE 13 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster, for which the District carries commercial insurance and is a member of the Special Districts Risk Management Authority (SDRMA). SDRMA is a risk pooling self-insurance authority, created under the provisions of California Government Code Section 6500 et. seq. The purpose of SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. The following is a summary of the insurance policies in force carried by the District as of December 31, 2013.

Type of Coverage	Limit per Occurrence	Aggregate Limit	Deductible
General liability	$ 10,000,000	$ -	$ 500
Automobile liability (incl. personal injury, property damage)	10,000,000		1,000
Uninsured/Underinsured motorists	750,000		
Employment practices liability	10,000,000	10,000,000	
Workers comp - statutory	Statutory		
Workers comp – employer liability	5,000,000		
Public officials and employees E & O	10,000,000	10,000,000	
Personal liability for Board members	500,000	500,000	500
Employee benefits liability	10,000,000	10,000,000	
Property coverage (including fire & theft)	95,000,000		10,000
Property coverage - flood	10,000,000		250,000
Employee dishonesty	400,000		35,000
Boiler & machinery	100,000,000		1,000
Excess insurance	40,000,000		

The District paid no material uninsured losses during the last three fiscal years and had no significant reductions in coverage during the year. Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The District considers claims incurred and reported, as well as claims incurred but not reported, to be immaterial and has not accrued an estimate of such claims payable.

NOTE 14 – Commitments and Contingencies

Contract Commitments

The District had the following significant contract commitments outstanding as of December 31, 2013 and 2012:

Year	Project Name	Contract Amount	Remaining Contract Commitment
2013	Contract to study feasibility of pressurizing the irrigation distribution system	$ 750,000	$ 728,214
2012	Contract to refurbish main distribution canal	900,000	663,992

State Water Resources Control Board Proceedings and Related Proceedings.

Bay Delta Water Quality Standards. In Decision 1641, the State Water Resources Control Board ("SWRCB") ordered the implementation of the flow schedule described in the San Joaquin River Agreement, to which the District is a party, to implement the Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary it adopted in May 1995 ("Bay-Delta Standards".)

The SWRCB is in the process of updating the Bay-Delta Standards. The SWRCB is expected to prepare a plan based on the environmental document and at some point in the future, commence proceedings to enforce the new standards. In past enforcement proceedings, the SWRCB has implemented standards based on the water rights priority system. The effect of the new standards on the District's water supply depend upon what standard is adopted and how the SWRCB implements the new standard.

Endangered Species Issues. A biological opinion issued by the U. S. Fish & Wildlife Service in June 2009 imposed new flow requirements on the U. S. Bureau of Reclamation's ("USBR") operation of New Melones Reservoir. The biological opinion may require that the District divert less water in certain years. The District challenged the biological opinion in U.S. District Court, and the court overturned the opinion and affirmed that the Districts' water rights are not subject to the biological opinion. However, the Court left the opinion in effect until a new biological opinion can be developed. This could result in less storage at New Melones Reservoir and could reduce the capability of the USBR to meet its obligations, in some years, to provide water from New Melones Reservoir to the District under the 1988 Agreement and Stipulation.

Pollution standards under Clean Water Act. The Central Valley Water Quality Control Board is charged with responsibility to establish a program to set total maximum daily loads ("TMDL") for the various pollutants that contribute to the San Joaquin River and its tributaries being listed as impaired water bodies. The river and its tributaries are also listed as impaired for temperature because of adverse impacts to fisheries. The District is potentially subject to TMDL enforcement measures to the extent that its diversion from the Stanislaus River, or its releases of drain water to the Stanislaus and San Joaquin Rivers, contribute to the problem. The possible impacts on the District are unknown at this time. The District has been participating in these processes through the San Joaquin River Group Authority.

Aquatic Pesticides. The District uses aquatic pesticides in its canals to control the growth of aquatic weeds. In August, 2011, dead fish were found in the District's French Camp Outlet Canal. Tissue samples tested positive for a pesticides applied upstream by the District. Ammonia was also detected, presumably from drainage water from a nearby cornfield. A California Department of Fish and Wildlife report concluded that the pesticide was the cause of the incident. In March, 2014, the San Joaquin County District Attorney advised the District that the DA is investigating the incident. The DA is considering proceeding under a code section that bans the release of certain toxic substances into waters of the State. It allows civil penalties of up to $25,000 per violation and injunctive relief. While only one potential violation should be at issue, with a ceiling of $25,000, it is unknown how many violations the DA will allege or the amount of the civil penalties the DA intends to seek, if any.

Retail Electric Litigation. The District filed a new application with the San Joaquin County Local Agency Formation Commission (“LAFCo”) in September 2009 to provide retail electric service. The District’s efforts are opposed by PG&E. Any decision by LAFCo in favor of the District's application is likely to be challenged in court by PG&E.

Other Legal Contingencies. The District is a party to a number of claims by current and former employees and other parties for a variety of matters. Management believes there will be no adverse financial impacts to the District due to these claims.

NOTE 15 – Change in Estimate

The method for estimating the sick leave portion of the liability for compensated absences was changed in 2013. This change of estimate resulted in a reduction of $1,284,281 to the compensated absences liability, and the payroll taxes and benefits expense, compared to what these amounts would have been using the prior estimating method. Beginning in 2013, unused sick leave hours attributable to employees’ past service as of the balance sheet date, which will eventually be exchanged for OPEB, are excluded from the estimation of the compensated absences liability because those hours are recognized in the net OPEB obligation.

In 2012 the balance of the long-term note receivable was adjusted from $566,772 to $503,647, and capital contribution revenue decreased by the same amount based on a new accounting of the final project costs agreed to by the developer. Interest income and "accrued interest receivable – unrestricted" was reduced by $49,321. The underlying transaction is described in Note 4 – Accounts and Notes Receivable.

NOTE 16 – Subsequent Events

The District has evaluated events subsequent to the balance sheet dates through May 19, 2014. GASB Statement No. 56 requires consideration of subsequent "events that provide evidence with respect to conditions that did not exist at the date of the statement of net assets [balance sheet] but arose subsequent to that date." These subsequent events must be disclosed if their disclosure is essential to the user's understanding of the financial statements.

During January, 2014 the District received a distribution of $2.6 million from Tri-Dam Project.

Since December 31, 2013 it has become apparent that precipitation for the winter is far below normal. The calendar year of 2013 was the driest in recorded history in the District and the Stanislaus River watershed. The winter has continued very dry into 2014. This is expected to result in significant reductions to hydro-electric generation revenues to the Tri-Dam Project and the Tri-Dam Authority in 2014. The consequences of this may include reductions in financial reserves held by the Tri-Dam entities or reduced distributions to the District in 2014. Nonetheless, the District expects to satisfy the debt service coverage requirement of the indenture of trust for the Refunding Revenue Bonds Series 2012A.

The District began charging irrigation customers an additional $3 per acre-foot during 2014. The rate increase was adopted in July, 2012 in order to comply with 2009 state Senate Bill X7-7 which requires that irrigation water be priced at least in part by the volume used.

NOTE 17 – New Accounting Standards

In June 2012, the GASB approved Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this GASB Statement will have a significant impact on the District's financial statements and is effective for the District's December 31, 2015 financial statements. The District will fully analyze the impact of this new Statement prior to the effective date above.

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

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Required Supplementary Information

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Required Supplementary Information for Other Postemployment Benefits ("OPEB") Plan (unaudited)

The schedule of funding progress for the District's OPEB, is presented below as required supplementary information, and reports multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress for Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2011	$ 1,647,570	$ 1,668,141	$ 20,571	98.77%	$ 5,786,998	0.36%
12/31/2012	2,042,811	2,059,285	16,474	99.20%	6,080,709	0.27%
12/31/2013	2,262,126	2,145,567	(116,559)	105.43%	6,741,726	-1.73%