SCHOOL PROJECT FOR UTILITY RATE REDUCTION (SPURR)

(A Joint Powers Authority)

ANNUAL REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 & 2012

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MANAGING DIRECTOR'S LETTER

To the Board of Directors
School Project for Utility Rate Reduction
Concord, California

During the fiscal year ending June 30, 2013, the School Project for Utility Rate Reduction ("SPURR") provided our participating agencies with aggregated procurement services to help them control and reduce utility costs.

SPURR's **Natural Gas Procurement Program** provides direct access to the wholesale market by aggregating purchasing for thousands of public school, community college, and other eligible facilities. Our relationships with multiple wholesaler suppliers provide us with the best market prices and terms available. We provide risk management options (to improve budgetary stability) and first-rate market expertise to our program participants. SPURR also provides superior customer service and account oversight. In many cases, we catch utility billing errors and insist on corrections before our participants ever see a bill.

SPURR's **Expense Management, Solar Analysis, and Prop 39 Support Programs** provide independent, expert advice and assistance to participants seeking to derive the most value from their utility expenditures.

SPURR's **E-Rate Eligible Telecom Procurement Program** conducts statewide Requests for Proposal for telecommunications services eligible for federal "E-Rate" funding. SPURR members and non-members can participate in our excellent contract terms and pricing, whether they are applying for E-Rate funding or not.

SPURR's **Electricity Procurement Program** takes advantage of customer choice opportunities for accounts on the PG&E and Southern California Edison utility systems. Although electricity customer choice is currently limited by statute, we are working with other consumer groups to try to expand choice in the future.

SPURR provides **Regulatory Representation** on behalf of our constituents in proceedings at the Public Utilities Commission and in Legislative hearings. Recent efforts have focused on reducing allegedly "stranded" costs imposed by utilities on customers who choose to take supply from non-utility providers.

In August 2013, SPURR repaid its **2012 Revenue Anticipation Notes** ("RANs") as scheduled. In November 2013, we issued another series of RANs, also at low interest rates. SPURR continues to enjoy favorable rates as a result of the "Investment Grade 1" rating of our RANs by Moody's Investors Services.

In all of our programs, SPURR staff works to meet the specific requirements of our participants and to exceed their expectations. We look forward to serving our members and program participants in the year ahead.

December 16, 2013

Michael Rochman
SPURR Managing Director

Overview, History and Operation

The School Project for Utility Rate Reduction ("SPURR") is a joint exercise of powers authority formed pursuant to the terms of a Joint Powers Agreement dated as of September 1, 1989 under Title 1, Division 7, and Chapter 5 of the California Government Code. SPURR's purpose is to seek reduction and control of utility costs on behalf of its members.

In 1992, SPURR inaugurated a program of self-procurement of natural gas supplies that are delivered and accounted for by the local monopoly distribution company, either Pacific Gas & Electric Company ("PG&E") or Southern California Gas Company ("SCG" and, collectively with PG&E, the Utility Distribution Companies, or "UDCs").

Currently just over 200 public agencies in Northern California participate in SPURR's natural gas program for service to about 3,680 "core" accounts and 18 "noncore" accounts. SPURR gas program participants (the "Participants") may opt to leave the gas aggregation program of SPURR effective at the start of the next fiscal year (July 1) if they provide notice to SPURR prior to the preceding March 1, unless the Participant has agreed to a longer notice period as part of specific energy procurement for that Participant. Participants in the SPURR gas program pay for their natural gas by depositing monthly payments into an escrow account managed by Union Bank of California. No Participant has ever defaulted on its gas purchases; nor has any vendor not been paid.

SPURR's primary source of revenues each year is derived from the sale of natural gas to Participants who share the costs of program energy procurement, operational expenses, and administrative overhead. For the fiscal year 2013/14, SPURR projects total revenues of approximately $31,000,000 from the sale of natural gas and the collection of local transportation charges for gas delivery.

As of June 30, 2013, SPURR had no outstanding debt other than its 2012 Revenue Anticipation Notes in the principal amount of $1,950,000, which were fully redeemed on the stated due date August 1, 2013. A new Series of 2013 Revenue Anticipation Notes in the principal amount of $3,000,000 were issued December 3, 2013, and are due for repayment on August 1, 2014.

Annual Report Presentation

This annual report must be read in its entirety—Managing Director's Letter, Management's Discussion and Analysis, financial statements & related notes and Independent Auditors' Report—to obtain a thorough understanding of SPURR, its financial condition and results of operations as of, or for the year ended June 30, 2013. This section, Management's Discussion and Analysis, provides an overview of SPURR's financial activities for the fiscal year ending June 30, 2013.

Condensed Statement of Net Position

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting, similar to accounting methods used by most private-sector entities. Net position is the difference between total assets and total liabilities.

	(in thousands)		
	2013	2012	Change
ASSETS			
Cash and equivalents	$ 4,457	$ 5,072	-9.37%
Accounts receivable	2,248	2,043	10.02%
Earned but Unbilled	982	832	18.03%
Operating Imbalance	456	-	100.00%
Investments	2,596	3,876	-33.02%
Gas in storage	621	889	-30.17%
Total assets	$ 11,360	$ 12,712	- 10.64%
LIABILITIES			
Accounts payable and accrued liabilities	$ 2,862	$ 2,113	35.51%
Revenue anticipation notes	1,950	3,250	-40.00%
Operating Imbalance	-	210	-100.00%
Deferred revenue	511	720	-28.97%
Total liabilities	$ 5,324	$ 6,293	-15.39%
NET POSITION	$ 6,036	$ 6,419	-5.98%

Condensed Statement of Net Position (continued)

All assets and liabilities are current. Net position of $1,300,000 and $2,168,010 on June 30, 2013 and 2012, respectively, are restricted for repayment of the RANs issuance. Net position of $4,735,657 on June 30, 2013, and $4,251,407 on June 30, 2012 are not reserved or designated and may be used for any matters authorized in the bylaws or, as otherwise approved by the Board of Directors.

Condensed Statement of Revenues and Expenditures

The Statement of Revenues and Expenditures presents the revenues received by SPURR along with costs associated in generating the revenues and other costs of managing and financing the program.

	(In thousands)		
	2013	2012	Change
Gas revenues	$30,224	$33,200	-8.96%
Gas costs	29,777	32,076	-7.17%
Margin	447	1,124	-60.23%
Management costs	-802	-814	-1.48%
Interest income	33	52	-36.92%
Interest expenses	-26	-47	-44.22%
Other expenses	-36	-94	-62.09%
Net income (loss)	$(384)	$221	-273.76%

As a general rule, SPURR's gas prices are based on the wholesale cost of natural gas in Northern California, including related costs such as transportation, gas storage, management fees, plus anticipated working capital requirements. SPURR's gas revenues also include "local transportation" costs owed by Participants to the Utility Distribution Company and collected by SPURR for remittance to UDC. (Some Participants prefer to pay their local transportation costs directly to the UDC, but most prefer that SPURR collect and remit such charges.)

During the fiscal year ended June 30, 2013, SPURR's core program had a volume of 34.7 million therms compared to a volume of 35.4 million therms for the fiscal year ended June 30, 2012. Non-core program volumes for the fiscal year ended June 30, 2013 were 6.9 million therms, compared to 6.7 million therms in the prior fiscal year. Changes in therm volume are due to changes in weather, accounts, facility usage patterns, and Participants from year to year.

SPURR's ten largest Participants accounted for 31.7% of total gas volume in the fiscal year ending June 30, 2013, as compared to 32.9% in the prior fiscal year.

Interest expense decreased in 2013 due to a smaller RANS issuance, reduced interest rate, and shorter maturity. The interest income decreased due to a decrease in invested funds and smaller cash balances.

Condensed Statement of Cash Flows

The Condensed Statement of Cash Flows presents information about cash activity during the year. The statement is divided into sections that detail cash provided or used by all activities affecting the program operating, investing, and financing plus the beginning and ending cash balances.

	(in thousands) 2013	(in thousands) 2012
Cash provided (used) by:		
Operating activities	$ (139)	$ 846
Investing activities	2,120	(691)
Financing activities	(1,300)	(320)
Net change in cash	681	(165)
Cash, beginning of year	5,072	5,237
Cash, end of year	$ 5,753	$ 5,072

The major changes in cash provided or used by SPURR are the result of the timing of vendor payments with the alternative of maximizing safe, highly liquid investments.

Prospective Outlook Affecting Subsequent Fiscal Years

As this Annual Report is being finalized in early December 2013, wholesale natural gas prices for January 2014 delivery have vacillated between a price of $3.65 and $4.65 per MMBtu during the most recent twelve months. Factors that directly affect the price of natural gas include (a) the value of the US dollar, (b) rates of domestic and international economic growth, (c) geopolitical conflicts, and (d) various technical, economic and political constraints on development of new natural gas production and transportation facilities. We believe that continued unpredictability of these factors will cause continued volatility in pricing indefinitely.

SPURR manages price risk in two basic ways. First, we contract with multiple wholesale suppliers. We purchased significant supplies from at least six different wholesale distributors in the fiscal year ending June 30, 2013. This provides us with good visibility on prices (as we have multiple sources of information) as well as better prices overall (as numerous suppliers compete for our business). Second, we purchase some gas for future delivery under a variety of fixed price contracts. This allows SPURR to offer Participants “customized” levels of fixed and variable rate pricing, as well as other pricing structures, to meet their own risk tolerances.

Prospective Outlook Affecting Subsequent Fiscal Years (continued)

One issue not within our control is the performance of the UDCs, which are responsible for delivering our gas to Participants' facilities, as well as for handling metering responsibilities. Since the UDC has a legal monopoly on those functions, we cannot shop elsewhere if we are dissatisfied with the UDC's services.

SCHOOL PROJECT FOR UTILITY RATE REDUCTION
Statements of Net Position
For the Fiscal Years June 30, 2013 and 2012

ASSETS	2013	2012
Cash and cash equivalents in bank	$ 4,456,636	$ 5,071,879
Accounts receivable	2,247,685	2,043,002
Earned but Unbilled	981,910	831,909
Operating Imbalance	456,000	-
Investments	2,596,500	3,876,322
Gas in storage	620,935	889,195
Total assets	$ 11,359,666	$ 12,712,307
LIABILITIES		
Accounts payable	$ 2,839,480	$ 2,071,391
Revenue anticipation notes	1,950,000	3,250,000
Operating Imbalance	-	210,000
Accrued interest on revenue anticipation notes	23,057	40,986
Gas Contract Liability	-	388
Deferred revenue	511,472	720,124
Total liabilities	$ 5,324,009	$ 6,292,890
NET POSITION		
Restricted	$ 1,300,000	$ 2,168,010
Unrestricted	4,735,657	4,251,407
Total net position	$ 6,035,657	$ 6,419,417

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

SCHOOL PROJECT FOR UTILITY RATE REDUCTION
Statements of Activities
For the Fiscal Years Ended June 30, 2013 and 2012

Revenues	2013	2012
Operations		
Natural gas revenues	$ 30,223,886	$ 33,199,657
Expenses		
Operations		
Natural gas costs	$ 29,776,829	$ 32,075,477
Management and administration	802,028	814,087
Total operating expenses	$ 30,578,857	$ 32,889,564
Operating income (loss)	$ (354,971)	$ 310,093
Other income (expenses)		
Interest income	$ 33,052	$ 52,393
Interest expense	(26,072)	(46,738)
Other expense	(9,922)	(67,448)
Bank charges	(25,846)	(26,900)
Total other income (expenses)	$ (28,789)	$ (88,693)
Change in net position	$ (383,760)	$ 221,400
Net position at beginning of year	$ 6,419,417	$ 6,198,017
Net position at end of year	$ 6,035,657	$ 6,419,417

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

SCHOOL PROJECT FOR UTILITY RATE REDUCTION

Statements of Cash Flows

For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Receipts from natural gas customers	$ 31,927,344	$ 33,019,161
Payments to suppliers	(31,727,359)	(31,361,208)
Payments of management and administration fees	(802,028)	(814,087)
Interest received	33,052	49,145
Interest payments	(26,072)	(46,738)
Net cash provided by (used in) operating activities	$ (595,063)	$ 846,273
Cash flows from investing activities		
Purchased investments	$ (3,096,500)	$ (4,310,449)
Proceeds from sales of investments	4,376,320	3,619,145
Net cash provided by (used in) investing activities	$ 1,279,820	$ (691,304)
Cash flows from financing activities		
Issuance of revenue anticipation notes	$ 1,950,000	$ 3,250,000
Retirement of revenue anticipation notes	(3,250,000)	(3,570,000)
Net cash (used in) financing activities	$ (1,300,000)	$ (320,000)
Net (decrease) in cash and cash equivalents	$ (615,243)	$ (165,031)
Cash and cash equivalents at beginning of year	5,071,879	5,236,910
Cash and cash equivalents at end of year	$ 4,456,636	$ 5,071,879
Cash flows from operating activities		
Change in net position	$ (383,760)	$ 221,400
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Changes in assets and liabilities		
Accounts receivable	(354,684)	1,142,921
Gas in storage	268,260	263,404
Accounts payable	768,090	(594,286)
Operating imbalance	(666,000)	134,000
Accrued interest on RANS	(17,929)	5,027
Gas Contract Liablity	(388)	(29,026)
Deferred revenue	(208,652)	(297,167)
Net cash provided by (used in) operating activities	$ (595,063)	$ 846,273

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

Membership and Purpose

SPURR membership is open to all California public school K-12 districts, community college districts, and County Offices of Education, as specified in SPURR's bylaws. SPURR was formed to seek reduction and control of utility costs for its members. Governance is provided by a Board of Directors representing a cross section of the members. As of July 2013, there were approximately 252 members of SPURR. Not all members participate in the SPURR natural gas acquisition program.

SPURR is a "core aggregator" which aggregates the natural gas requirements of over 209 Participants, including SPURR members and non-member public agencies and non-profit educational institutions. SPURR purchases gas from natural gas wholesale suppliers under a program seeking a combination of low prices, price stability and supply reliability. SPURR also arranges for the delivery of this gas to the Utility Distribution Company, which then transports the natural gas to the Participants at their usage sites (meters). For most Participants, SPURR collects the UDC's local transportation charges from Participants and remits those funds to the UDC. SPURR also pays other transportation and commodity vendors as necessary and charges those costs to Participants as part of the cost of natural gas.

SPURR also operates a "noncore" natural gas buying program for a number of larger gas accounts at facilities operated by Participants. SPURR's core natural gas program operates solely within PG&E's natural gas service territory, while the noncore program serves accounts in service territories of PG&E and SCG.

As required by UDCs and applicable regulation, SPURR "nominates" a projected program gas usage amount onto the gas distribution system each day. Subsequent to the usage dates, the UDCs read the meters at each usage site and transmit that information to SPURR for use in billing Participants and in program accounting. The differences between amounts nominated by SPURR and metered usages constitute "imbalances" which are cured by purchases, sales, or trades of natural gas by SPURR. In the core program, imbalances are typically settled three months after the usage month, but may be settled up to several years after the usage month under applicable regulation.

Imbalances at June 30, 2013 represented an over delivery of 111,200 MMBtu of gas, with a projected asset of $456,000 based on actual market prices. The imbalances at June 30, 2012 represented an under delivery of 45,700 MMBtu of gas with a projected liability of $210,000. In cases where there is a year-ending liability due to an outstanding “negative” imbalance, SPURR must subsequently acquire additional gas through purchase or trade. Where there is a “positive” imbalance at year end, SPURR may apply that gas to future delivery requirement, or may sell or trade that gas. The prices at which gas may be bought or sold to cure an imbalance may differ from prices in effect at the time the gas was consumed. In either case, the benefit or burden of imbalance trades will affect the cost to gas to Participants.

Under applicable state and federal regulations, the UDCs are allowed to correct or restate the actual amount of gas purchased in a given month for a period of several years after that month has ended. Such retroactive adjustments are common in California, and give rise to certain imbalances, which must be cured as discussed above.

SPURR also operates other procurement programs for the benefit of member and non-member entities. For example, SPURR has conducted aggregated procurements to negotiate terms of supply for electricity and telecommunications products and services. SPURR charges administrative fees for these programs, as authorized by the SPURR Board. In these programs, SPURR does not come into title of the goods and services procured, unlike in the natural gas programs. The non-gas programs currently generate less than 1% of SPURR's annual revenue.

Effective July 1, 2009, SPURR entered into a contract with North Star Consulting, Inc. ("NSC"), of Concord, California, to provide program operational services. Operational services include managing the procurement, cost accounting, billing and collections, contract management, and vendor payments processes on behalf of SPURR and under the direction of the SPURR Board. NSC has subcontracted certain natural gas operational services to Golden Valley Gas Services, Inc., of Dublin, California.

In addition to operational responsibilities, NSC's responsibilities include managing, on behalf of SPURR: marketing services, advocacy at the California Public Utilities Commission and the California Legislature with respect to utility cost and competition issues, customer service, and new program development. SPURR pays various program management fees to NSC, which totaled approximately $802,028 and $814,087 for the years ended June 30, 2013 and 2012, respectively, with approximately $199,286 payable at June 30, 2013 and $126,135 payable at June 30, 2012. NSC is responsible for payment of fees to any of its subcontractors.

Summary of Significant Accounting Policies

SPURR's accounting policies conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants. Significant accounting policies are summarized below.

Fund accounting

To ensure the proper identification of individual revenue sources and the expenditures made from those revenues, SPURR's accounts are organized into one fund. The operation of the fund is accounted for with a separate set of accounts that comprise its assets, liabilities, net position, revenues and expenditures, as appropriate.

Summary of Significant Accounting Policies (continued)

Basis of Presentation

The Governmental Accounting Standards Board ("GASB") released Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", which established a new reporting format for annual financial statements; SPURR adopted GASB 63 in fiscal year 2012. That financial statement presentation provides a more comprehensive, entity-wide perspective of SPURR's assets, liabilities, revenues, expenses, cash flows, and net position.

Measurement Focus and Basis of Accounting

For financial statement purposes, SPURR is considered a special-purpose government entity engaged only in business-type activities. Therefore, SPURR's financial statements are reported using the total economic resources measurement focus and full accrual basis of accounting. SPURR follows those Financial Accounting Standards Board ("FASB") Statements issued before November 30, 1989, which do not conflict with GASB statements and does not apply FASB statements issued subsequent to November 30, 1989.

Net position, reserves and designations

Net position represents all of SPURR's assets less its liabilities. Portions of SPURR's net position may be reserved or designated to indicate limitations placed by the agency providing the funds, or designated by Board action. No such reserves or designations existed at June 30, 2013 or 2012, except in connection with issuance of RANs. Pursuant to the terms of the RANs issued, SPURR held $1,300,000 and $2,168,010 in trust accounts as of June 30, 2013 and 2012, respectively for the retirement of the RANs, and are shown as "Restricted Net Position" on the Statement of Net Position.

Accounts receivable

Accounts receivable consists of billed and unbilled amounts to members based on actual gas usage. Billings are rendered monthly to Participants based on actual gas usage. Unbilled receivables are the result of gas usage through year-end, which is not billed until subsequent to year-end. Management is of the opinion that member accounts receivable are collectible in full and consequently, no allowance for bad debts has been included in the accounts.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates are used when accounting for the operating imbalance and contingencies among others. Actual results could differ from those estimates.

Summary of Significant Accounting Policies (continued)

Budget

SPURR's budget is subject to public hearings and is legally enacted through passage of a resolution by SPURR's Board of Directors prior to the start of each fiscal year.

The budget is prepared on the accrual basis of accounting and budget/actual comparisons in this report use that basis. These budgeted amounts are as originally adopted or as amended by the Board of Directors. Individual amendments were not material in relation to the original appropriations.

The following tables present a comparison of the 2013 revised budget and 2013 actual for SPURR along with the 2014 budget.

(in thousands)

	2014 Budget	2013 Revised	2013 Actual	Variance
Gas revenues	$31,000	$30,400	$30,224	(176)
Gas costs	30,100	30,000	29,777	(223)
Margin	900	400	447	47
Management costs	(810)	(825)	(802)	(23)
Interest expense	(20)	(20)	(26)	6
Interest income	20	20	33	(13)
Other expenses	(50)	(105)	(36)	(69)
Net income (loss)	$30	$(530)	$(384)	146
Net position at beginning of year	6,035	6419	6,419	0
Net position at end of year	$6,065	$5,889	$6,035	146

Cash and Cash Equivalents in Banks and County Treasury

Cash and cash equivalents are $4,456,636 and $5,071,879 as of June 30, 2013 and 2012 respectively, and include: a disbursement account, a temporary investment account, and cash on deposit with the Alameda County Treasurer. The investment account is administered by Union Bank of California and Wells Fargo Bank in which, on a daily basis, excess cash is swept into the account. Money market investments, which were uninsured and unsecured, totaled approximately $1,300,000 and $3,860,955 at June 30, 2013 and 2012, respectively.

Recently Issued and Adopted Accounting Pronouncements

Effective July 1, 2012, SPURR implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement amends the net assets reporting requirements of Statement No. 54 by renaming net assets as net position.

Investments

SPURR has invested in the Pooled Money Investment Account ("PMIA") of the Local Agency Investment Fund ("LAIF") maintained by the Office of the Treasurer of the State of California. The carrying value of the investments approximates their fair market value. As such, all amounts cannot be classified in terms of market risk because they do not represent specifically identifiable investments. The PMIA consists of highly liquid investment instruments such as certificates of deposits, high-grade commercial paper, and the like. The "Average Life of Portfolio" for the PMIA as reported by LAIF was 165 days as of June 30, 2013. In addition, LAIF reported that over 71% of PMIA maturities were 120 days or less as of June 30, 2013. Additionally, SPURR has short term investments in Wells Fargo Bank and Union Bank of California. The banks invest the funds in U.S. government bonds and high-grade commercial paper.

The Organization's investments are reported at fair value in the accompanying statement of net position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SPURR's investments, at fair value at June 30, 2013 and 2012 were based on the following:

Money market funds	$ 2,581,082	$ 3,860,955
Local agency investment fund	15,418	15,396
Total	$ 2,596,500	$ 3,876,322

Gas Supply and Transportation Costs

Gas supply and transportation costs included the following at June 30, 2013 and 2012, respectively:

	2013	2012
Gas supply costs	$ 16,536,675	$ 16,900,060
Transportation costs	13,240,154	15,175,417
Total gas supply and transportation costs	$ 29,776,829	$ 32,075,477

Gas in Storage and Deferred Revenue

At June 30, 2013 and 2012, in anticipation of winter consumption requirements, SPURR had purchased gas and placed it in storage with independent gas storage providers. The gas costs were allocated to Participants and billed to them at the time of purchase. Such billings totaled $511,500 and $720,100 at June 30, 2013 and 2012, respectively. Gas is withdrawn from storage during high consumption months from November through March and credits are applied to Participants' accounts during those withdrawal months. As of June 30, 2013 and 2012, gas costing $620,900 and $889,100 respectively had been placed in storage. Such gas is stated at cost using the first-in, first-out basis.

Revenue Anticipation Notes

SPURR issues Revenue Anticipation Notes ("RANs") to cover seasonal working capital requirements in anticipation of winter gas consumption and the normal billing and collection cycle of Participants' accounts.

On December 18, 2012, SPURR issued $1,950,000 in Revenue Anticipation Notes (the "2012 RANs"), with a coupon of 2.00% and a yield of 0.80% per annum. The 2012 RANS were repaid as scheduled on August 1, 2013.

On December 3, 2013, SPURR issued $3,000,000 in Revenue Anticipation Notes (the "2013 RANs"), with a coupon of .42% and a yield of 0.42% per annum. The 2013 RANs have a due date of August 1, 2014. SPURR is, and at all times since issuance has been in full compliance with all provisions of the 2013 RANs loan indenture.

Contingencies

Utility companies can and do make adjustments to their reported actual usage amounts for prior periods. These adjustments may be made several years after the gas was actually consumed. Prior period adjustments may add to, or subtract from, natural gas imbalances, as discussed above. For example, a prior period adjustment which increases in reported actual usage, creates a “negative” imbalance that must be cured through the acquisition of additional gas supplies, through purchase or trade. The prices at which gas may be bought or sold to cure an imbalance may differ from prices in effect at the time the gas was consumed. In either case, the benefit or burden of imbalance trades will affect the cost to gas to Participants.

The financial statements reflect all material purchases or sales of gas required as a result of imbalances, including imbalances due to prior period adjustments, which were known to management at the date these financial statements were prepared. However, no provision has been made for the effects of any additional future prior period adjustments which may be required by the IOUs.

Concentrations

As described above, the UDCs transport natural gas to Participants through UDC pipeline and transmission mechanisms. The UDCs also provides the metered usage data for the program. The program's operations depend upon these UDC services.

As described above, NSC has sub-contracted with others to perform certain operational services. In the event that any sub-contractor no longer performed such services for the program, NSC would contract with other available service providers.

Commitments-Gas Purchase Price Management

SPURR aggregates natural gas purchases for the purpose of reducing and managing volatility with respect to the net effective cost of gas and other gas-related services supplied to the Participants. By aggregating large purchases of natural gas and related services (e.g., interstate and intrastate transportation of gas, gas storage, billing and reporting), the programs are intended to reap the benefits of direct access to wholesale markets, as well as the ability to protect against price spikes, and to pass those benefits along to the Participants.

In particular, in response to continued volatility in natural gas prices on a national level and within California, which put a great deal of pressure on Participants' energy budgets, SPURR offers various rate plans for its gas program Participants to meet their risk management preferences.

Participants can request that SPURR provide "customized" levels of fixed and variable rate pricing, as well as other pricing structures. Absent such request from a Participant in the core program, SPURR's default pricing plan is to provide 40% of fiscal year usage to Participants at fixed rates announced at the start of each fiscal year, with the remainder provided at variable rates based on current market prices. In the noncore program, Participants receive fully variable pricing, unless they request some level of fixed rate or other structured rate pricing, such as capped or collared pricing. SPURR supports its rate plans with physical supply agreements, with storage gas, and in some cases with financial hedge arrangements. Financial hedge arrangements may consist of fixed-for-floating swaps, or purchases of call options.

SPURR made no deposits during the fiscal year ending June 30, 2013 for gas deliveries in the subsequent fiscal year. It is the opinion of SPURR that the rate plans offered by SPURR to gas program Participants enable Participants to obtain the level of budgetary protection that meets their needs. Since SPURR charges through the actual costs of gas to its Participants, management is of the opinion that pricing under rate plans will not have a material effect on SPURR's financial operations.

Core and Non-Core Fixed Price Gas Purchase Commitments

Core Fixed Price Gas Purchase Commitments as of June 30, 2013 and 2012, respectively:

	2013	2012
Fixed Price Commitments	$ 5,010,000	$ 2,670,000

Non-Core Fixed Price Gas Purchase Commitments as of June 30, 2013 and 2012, respectively:

	2013	2012
Fixed Price Commitments	$ 382,528	$ 917,788

Date of Management's Review

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 2, 2014, the date the financial statements were available to be issued.

Schwartz Giannini Lantsberger & Adamson
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
School Project for Utility Rate Reduction
Concord, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of School Project for Utility Rate Reduction ("SPURR") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise SPURR'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of SPURR as of June 30, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2-6 be presented to supplement the basis 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 standard 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 inquires, 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.

Schwartz, Giannini, Lantsberger & Adamson

Stockton, California
January 2, 2014