

## INDEPENDENT AUDITOR'S REPORT

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

**NICHOLSON  
&  
OLSON**

LIMITED LIABILITY PARTNERSHIP  
CERTIFIED PUBLIC ACCOUNTANTS

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We have audited the accompanying basic financial statements of the Tri-Dam Project (Project) as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Tri-Dam Project's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Tri-Dam Project as of December 31, 2007, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2008, on our consideration of the Tri-Dam Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

**TRI-DAM PROJECT**  
***Strawberry, California***

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**Independent Auditor's Report  
Financial Statements  
and  
Supplementary Information**

**Year Ended  
December 31, 2007**

# TRI-DAM PROJECT

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## INDEPENDENT AUDITOR'S REPORT

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

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

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and express no opinion on it.

Our audit was made for the purposes of forming an opinion on the financial statements taken as a whole. The schedules listed as supplementary financial information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Tri-Dam Project. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is presented fairly in all material respects in relation to the financial statements taken as a whole.

*Nicholson & Olson*

Certified Public Accountants  
Roseville, California  
February 15, 2008

**TRI-DAM PROJECT**  
**Management's Discussion and Analysis**  
**December 31, 2007**

March 28, 2008

Joint Board of Directors of the Tri-Dam Project and  
Other Interested Individuals and Entities,

This letter accompanies the Tri-Dam Project's basic financial statements including the notes to those financial statements for the year ended December 31, 2007. This document, constituting a discussion and analysis of the financial activities and position of the Tri-Dam Project and prepared by its management, is intended to be read in conjunction with the statements and the independent auditor's report dated February 15, 2008 on those statements.

This document supplements management's regular written reports to the Joint Board of Directors. This annual written report is occasioned by the various requirements of the Governmental Accounting Standards Board (GASB) which Tri-Dam Project has adopted.

**BACKGROUND**

Tri-Dam Project, although not a formal legal entity, was created in 1948 as, essentially, a joint-venture of the *Oakdale Irrigation District* and the *South San Joaquin Irrigation District*. The five elected directors from each of the two districts comprise the "*Joint Board of Directors*" of the Project. Overall management of the Tri-Dam Project is vested in the General Manager by the Joint Boards. The General Manager and the managers for operations, maintenance, and finance/administration handle the day-to-day activities of the Project. We refer to the joint entity as "Tri-Dam Project", "Tri-Dam", "Project" or "The Project".

*Tri-Dam Power Authority*, a separate but related entity, and the *Tri-Dam Project* share the same management, administrative facilities, and operations and maintenance staff. The Authority reimburses Tri-Dam Project for the Authority's share of expenses.

Tri-Dam Project is engaged in water diversion, storage, and hydroelectric generation from several locations on the Middle Fork and main stem of the Stanislaus River in Tuolumne and Calaveras Counties, California. It operates Donnell's dam, reservoir and power plant; Beardsley dam, reservoir, and power plant; Tulloch dam, reservoir, and power plant; and Goodwin dam and reservoir, along with several ancillary facilities. Tri-Dam Project's facilities are situated on federal public lands (Stanislaus National Forest), private lands with easements granted to the Districts, and lands owned by the Districts.

Electric output is sold to Pacific Gas & Electric Company (PG&E) under a five year agreement which continues through December 31, 2010 subject to contractual termination provisions. Water is delivered by Tri-Dam Project to each District's water conveyance systems (canals) without charge.

**TRI-DAM PROJECT**  
**Management's Discussion and Analysis**  
**December 31, 2007**

**BACKGROUND** - continued

Operation and maintenance of the hydroelectric plants, including how much water is available for hydroelectric generation, is subject to various federal and state laws, regulations, and fees. Maintenance of the plant, access ways, transmission power lines, communications sites, and related facilities are, to some degree, subject to regulation by the US Forest Service for those facilities which are on Forest Service lands.

**Relicensing**

The Federal Energy Regulatory Commission (FERC) licenses the dams, reservoirs, and power plants. The original 50-year licenses, one for Donnell and Beardsley and the other for Tulloch, expired on December 31, 2004. Licenses to operate the three facilities for an additional 40 years (through December 31, 2045 following a one year temporary license) were issued by FERC in early 2006.

Tri-Dam Project was involved in a substantial multi-year collaborative effort with federal and state agencies, non-governmental organizations, and consultants to meet requirements for new licenses. Approximately \$3,324,000 has been expended on those efforts. These costs are being amortized over the life of the FERC licenses. (These amounts, like all those in this document, have been rounded and in some cases are approximations)

Tri-Dam Project has agreed to certain operating conditions (principally the frequency, volume, and duration of water flows) which will somewhat reduce generation capability. Additionally Tri-Dam Project has agreed to fund certain environmental and recreational activities, sometimes referred to as mitigation measures. Tri-Dam Project's funding for these activities will principally occur during the first 10 years of the 40 year licenses (2006 through 2015).

The reduced generation is expected to be approximately 5% of existing generation capacity. Expenses for environmental and recreational activities are expected to total between \$3,000,000 and \$4,000,000 over the 1 to 10 year period following issuance of the FERC license. On-going expenses in support of these activities are expected to be between \$200,000 and \$250,000 per year, increasing with inflation, for the duration of the FERC licenses. These expenses will be for environmental monitoring and the development of additional recreational facilities in and adjacent to the Project facilities, and direct and indirect financial support to the US Forest Service. These outlays will be reflected as operating expenses in the year in which they occur. Facilities created or improved by such expenditures will not be owned by Tri-Dam. In addition, FERC authorized the addition of a 7 MW generator at Tulloch with an estimated capital cost of \$16,000,000 over a 4 to 5 year period. Preliminary engineering work for that generator began during 2007.

Management believes that existing and future agreements for the sale of energy generated will produce substantially greater revenue than the accumulated costs of relicensing, including reduced generation capability and the environmental and recreational mitigations. This is further discussed in **POWER REVENUE** below.

**TRI-DAM PROJECT**  
**Management's Discussion and Analysis**  
**December 31, 2007**

**REVENUE**

Overall revenue for 2007 is \$23,150,000. This compares to \$35,323,000 for 2006, a decrease \$12,173,000 (34%). The sale of energy – **Power Generation Revenue** – accounts for 86% of the Project's revenue stream (\$19,862,000). **Investment Earnings** account for about 7% of revenues (\$1,597,000). **Other Revenues** (operating and non-operating) - is comprised of a combination of fees, charges, rentals, reimbursements, and other miscellaneous income totaling \$1,692,000 for 2007 and amounts to about 7% of overall revenue.

**POWER REVENUE**

Electric generation is measured in kilowatts (kW). Typically payments are made to generators for kW "capacity," and for actual energy generated – kilowatt hours (kWh). All of Tri-Dam Project's 'capacity' and 'generation' is under contract to Pacific Gas and Electric Company (PG&E).

The Project and PG&E have entered into a five-year power sale agreement (with certain mutually exercisable early termination provisions). The five-year agreement replaces the original 50-year agreement which expired by its terms on December 31, 2004.

The five-year agreement covers all generating facilities of the Project and is the principal source of operating revenue for the Project. Management budgeted \$25,000,000 in 2007 power generation revenue based on the terms of the power sale agreement and estimates of water supplies and of energy prices. This sum is net of fees, charges, and penalties.

Power revenue of about \$19,862,000 was actually realized during 2007; a shortfall from the budget of about \$5,000,000. The decline in power revenue from 2006 to 2007 and negative variance from the 2007 budget owes to a 'dry' hydrologic year with much less snow pack and hence water runoff for generation than we had forecast. Additionally the average energy price the Project was paid under the PG&E contract was less for 2007 than for 2006. This fact reflects a decrease in wholesale energy prices between the two years. Power generation revenue for 2008 has been budgeted at \$25,600,000 reflecting 'normal' prices and hydrologic conditions.

Significant annual variances in power revenue will occur from year-to-year reflecting changes in water available for generation and the wholesale price of energy. Tri-Dam Project can and likely will incur penalties and charges for failing to meet contract obligations for timely power production which are likely to occur during the course of normal operations. Management has made what it regards as a reasonable estimate of the fees, charges, and penalties that are likely to be incurred during normal operation of the power plants.

**INVESTMENT & OTHER REVENUES**

Earnings from medium and short term investments, including changes in market valuation of securities, were \$1,596,000 for 2007. In the prior year earnings from the same sources were \$1,784,000. Management expects investment earnings for 2008 to be less than those for 2007 reflecting a general decline in interest rates.



**TRI-DAM PROJECT**  
**Management's Discussion and Analysis**  
**December 31, 2007**

**INVESTMENT & OTHER REVENUES - continued**

Earnings will, of course, also reflect future funds available for investment.

Other revenues for Tri-Dam Project include the following. All amounts are for 2007 and 2006 respectively. Charges to Pacific Gas & Electric Co. (PG&E) for the headwater benefit from Donnell's Reservoir (\$293,400 / \$286,200), charges to Tri-Dam Power Authority for reimbursement for services rendered (\$321,000 / \$263,700), charges for the sale of water (\$116,800 / \$110,500), charges to Stockton East Water District for their share of Goodwin Dam operating costs (\$74,300 / \$61,800), charges to the US Bureau of Reclamation of certain Tulloch operating costs (\$72,200 / \$68,800), charges for rentals (\$55,400 / \$61,900), charges for encroachment permits at Tulloch Reservoir (\$14,500 / \$9,000), gains on the sale of surplus equipment (\$20,600 / \$13,200), and other miscellaneous receipts (\$55,000 / \$166,200). Management believes that similar amounts will be received during 2008.

In addition to the 'other revenues' noted above, there are two unusual sources of non-operating revenues during 2007: real property sales at Tulloch Reservoir (\$143,800) and the retroactive waiver of accrued, but unpaid, FERC fees and interest for the fiscal years 2002 through 2006 (\$524,500).

Tri-Dam had identified a number of encroachments (decks, retaining walls, and structures) on Project lands by adjacent property owners at Tulloch Reservoir. Tri-Dam had the real property under the encroachments appraised and has negotiated settlements and property transfers to resolve the issues. These payments and transfers were substantially complete during 2007.

As part of the federal re-licensing process Tri-Dam realized and communicated to the FERC that the Donnell's capacity 'nameplate' was greater than FERC records and the value on which FERC fees are assessed. Tri-Dam accrued \$222,000 in fees expense between 2000 and 2006 and \$302,500 in interest. During 2007 FERC advised Tri-Dam that they would not move to collect the fees. The accrued and unpaid expense (fees and interest) was written off to non-recurring income during 2007.

**EXPENSES**

Expenses fall into three areas: *wage and benefits; other operating costs; depreciation (and amortization)*.

The principal operating cost for Tri-Dam Project is *wages and benefits*. Tri-Dam Project's 23 full time employees, except for the 4 managers and part-time staff, are covered by a labor agreement with IBEW Local 1245. The represented employees fall into two categories: 10 persons in operations and 9 persons in maintenance activities. The General Manager, Operations Manager, Maintenance Manager, and Chief Financial Officer (for finance and administration) complete the complement of full time employees. A half time assistant is employed in the office and 2 interns working full time for 3 months are part of the Maintenance Department staff. We had two retirements in 2007 and expect 1 for 2008. The agreement covering represented employees was effective for the four years March 1, 2004 through February 29, 2008. A new agreement is being negotiated.

**TRI-DAM PROJECT**  
**Management's Discussion and Analysis**  
**December 31, 2007**

**EXPENSES - continued**

The agreement provided for a 5% increase in wage rates on March 1, 2007. Certain increases in retirement benefits are included in the agreement. Employee medical care is provided through a group plan at no cost to full time employees with employees responsible for 20% of any elected dependent premium costs.

The Project's full time staff is provided retirement and certain other benefits by virtue of the Project's contract with the State of California's Public Employee Retirement System (CalPERS). The cost of the future benefit is shared between the Project and the employee. Tri-Dam pays approximately 9.8% of CalPERS-defined 'covered' payroll as the employer's share in addition to six-sevenths of the employees 7% share. Tri-Dam's employer rate will increase on July 1, 2008 to about 10%.

The employer's share is related to the contracted-for benefit level and the investment earnings of CalPERS; greater earnings tend to reduce employer contributions. The employee's contribution is set by CalPERS at 7% of defined covered earnings of which 86% of that employee contribution amount is paid for by Tri-Dam Project and is treated as deferred compensation (for income tax purposes) for the employee.

Tri-Dam Project accounts for labor costs by applying "productive wages" to the appropriate expense category. *Productive wages* are the wages earned actually doing useful, productive work for Tri-Dam Project. *Non-productive wages* include vacation, holidays, sick leave, and the like. Non-productive wages are combined with payroll taxes and net benefit costs; the sum of those is referred to as "*overhead*" or "*labor overhead*".

Overhead as a percent of productive wages was 63.2% (\$950,000) for 2007, 63.5% for 2006, 55.8% for 2005, 53.3% for 2004 and 52.7% for 2003. We expect this ratio of *labor overhead* to *productive wages* to continue to gradually increase over the next several years reflecting rising health care and retirement benefit costs. For 2007 the cost to the Project for health/dental/vision premiums was approximately \$245,000 and the Project cost for retirement benefits was approximately \$246,000.

The now expired labor agreement provides that for retirees who completed at least 10 years of service and are at least age 55 as of their retirement date, the Project will contribute 50% of the "Monthly Medical Premium" for "Retiree only". The Tri-Dam Project contribution terminates when the retiree reaches age 65. There are 3 retired persons presently covered by this provision and 1 additional qualifying retirement expected for 2008. The expense for 2007 for this benefit was approximately \$8,500.

All wages (productive and non-productive) and overhead paid or accrued for 2007 amounted to \$2,459,000 compared to \$2,365,000 for 2006 and to \$2,176,000 for 2005 and \$2,010,000 for 2004. Of the 2007 total, \$321,000 was recovered from Tri-Dam Power Authority, \$117,000 was charged to fixed assets (plant and equipment), and the balance - \$2,061,000 - was charged to 2007 maintenance, operations, and general and administrative expense. Wages and benefits associated with fixed assets (\$117,000) will be amortized over the useful lives of those assets.

**TRI-DAM PROJECT**  
**Management's Discussion and Analysis**  
**December 31, 2007**

**EXPENSES - continued**

Since labor negotiations are not complete, the amount of the wage rate increase for 2008 and beyond is unknown at this time. A reasonable estimate of such increase might be about 3% to 5% during 2008 and beyond and, additionally, taxes and benefit increases (non-wage overhead) by approximately 5% to 10% depending on increases in pension costs and health insurance premiums.

*Other operating costs* include non-payroll expenses for operations, maintenance, and administration of the Project. They totaled \$3,522,000 for 2007, \$3,453,400 for 2006, \$1,470,000 for 2005, \$1,837,000 for 2004 and \$1,647,000 for 2003. Five broad categories of "other operating costs" are reviewed below.

*Federal, state, and local licenses, fees, taxes* (other than payroll taxes) and *assessments* amounted to \$495,000 for 2007, \$521,000 for 2006, \$354,000 for 2005, \$538,000 for 2004, and \$463,000 for 2003. *FERC license rights fees* decreased by \$36,000 between 2006 and 2007. *Purchased insurance* was \$312,000 for the 2007-2008 policy year, \$323,000 for 2006-2007, \$361,000 for 2005-2006, \$339,000 for 2004-2005, and \$377,000 for 2003-2004. Of these amounts the Tri-Dam Power Authority reimbursed the Project approximately 25% of the premium costs representing management's estimate of the Authority's share.

*Consulting and streamgaging* costs amount to \$1,002,000 for 2007, \$966,000 for 2006, and \$390,000 for 2005. Approximately half of the 2007 expense (\$417,400) is related to studies in connection with the addition of a third generating unit at the Tulloch power plant and about a third of the expense relates to on-going contract research work in connection with aquatic life (\$325,800) on the Stanislaus River near and below Project facilities.

*Professional fees for legal, accounting, custody and investment management services* and similar services amounted to \$58,800 for 2007, \$114,000 for 2006, and \$56,000 for 2005. The substantial completion of surveying and appraisals associated with property transfers at Tulloch Reservoir account for most of the reduction from 2006.

*All other expenses* (supplies, parts, fuel, utilities, telephone, vehicle operation and maintenance, data processing, and the like) amounted to \$494,000 for 2007, \$466,000 for 2006, \$354,000 for 2005, and \$653,000 for 2004. "All other expenses" for 2007 include approximately \$72,000 in expense for various expenses and services in connection with FERC license conditions implementation. Management expects continuing expenses in this category in the future as the terms of the FERC license are implemented on US Forest Service lands.

*Other operating costs* are expected to rise somewhat for future years notwithstanding the reduction from 2006 to 2007. The federal and state governments have established a pattern of increasing the fees and assessments charged to Tri-Dam Project (and similarly situated entities) in the name of full-cost-recovery. Management does not believe all such increases are warranted and will continue to appeal such increases where warranted. Future environmental and recreational mitigation costs (discussed above) will be in addition to "other operating costs" discussed here.

**TRI-DAM PROJECT**  
**Management's Discussion and Analysis**  
**December 31, 2007**

**EXPENSES - concluded**

*Depreciation and amortization* amounted to \$1,221,000 for 2007, \$1,132,000 for 2006, \$922,000 for 2005 and \$881,000 for 2005. Depreciation will continue to rise over the coming years, reflecting a steady investment in the Tri-Dam Project's plant and equipment as original equipment is replaced and new equipment is added.

**DISTRIBUTION OF EARNINGS**

The Joint Board of Director's adopted, in August 2005, Resolution 2005-03: **RESOLUTION ESTABLISHING RESERVES FUNDS & SEMI ANNUAL DISTRIBUTIONS FOR TRI-DAM PROJECT**. The resolution was amended and readopted (as Resolution 2008-02) in February 2008. The resolution establishes Project Reserves, including Maintenance Reserve, Self-Insurance and Licensing Reserve, and an Operating Reserve. These are categorized at "Investments" on the Project's Statement of Net Assets (\$28,058,000).

The *Maintenance Reserve* was initially funded at \$15,000,000 and will increase with annual investment earnings (amended out in 2008) and a transfer-in from revenues equal to the July 1<sup>st</sup> application of the consumer price index for the greater San Francisco-Oakland-San Jose area, rounded to the nearest \$50,000. The reserve is intended to provide funds for the timely repair or replacement of critical project components, especially those relating to the storage and delivery of water to the Districts and those relating to the maintenance of reliable and efficient generating capability. The Maintenance Reserve balance at December 31, 2007 stands at \$16,816,000 and \$16,048,000 at the end of 2006.

The *Self-Insurance and Licensing Reserve* was initially funded at \$4,000,000 and will increase with annual investment earnings (amended out in 2008) and a transfer-in from revenues equal to the July 1<sup>st</sup> application of the consumer price index for the greater San Francisco-Oakland-San Jose area, rounded to the nearest \$50,000. The reserve is intended to be used to cover the deductible amounts for insured losses, uninsured losses, and for the implementation of the various FERC license requirements - principally associated with enhancing recreation enhancements for the public's enjoyment and for continuing scientific studies of the project area. The Self-Insurance and Licensing Reserve balance at December 31, 2007 stands at \$4,497,000 and \$4,290,000 at the end of 2006.

The *Operating Reserve* was established at \$6,000,000. The reserve is intended to be used to fund maintenance, operations, and general and administrative expenses for the year. The Operating Reserve balance at December 31, 2007 stands at \$6,745,000 and \$16,876,000 at the end of 2006.

Resolution 2008-02 permits the distribution to the Districts, in equal shares, of funds held in the Reserves in excess of the amounts specified in the resolution. Distributions are to be considered at the January and July meetings of the Joint Board of Directors.

The Joint Boards authorized total distributions of \$21,200,000 in 2007, \$27,600,000 in 2006, \$11,400,000 in 2005, \$8,384,000 in 2004 and \$5,544,000 in 2003. Distributions of \$5,200,000 have been made thus far in 2008.

**TRI-DAM PROJECT**  
**Management's Discussion and Analysis**  
**December 31, 2007**

**ASSETS, LIABILITIES, NET ASSETS, and CASH FLOWS**

The assets held by the Project are principally of the kind and in the amounts judged by the Joint Board of Directors and management necessary to support on-going, normal operations. Cash sufficient to meet 12 to 18 months operating needs is maintained in a combination of the Revenue Fund and in a pooled fund with the State of California (Local Agency Investment Fund). All funds are invested according to the Tri-Dam Project's investment policy. Of the \$34,651,000 in funds on hand at December 31, 2007, approximately 62% (\$21,313,000) representing longer-term needs was under the fee-based management of Highmark Capital, a subsidiary of Union Bank of California. The balance, 38% (\$13,338,000) representing shorter-term needs was under the management of Tri-Dam staff.

Substantially all Project funds are held by Union Bank of California (as custodian, not as deposits), the California State Treasurer's Office (Local Agency Investment Fund - LAIF), or by the Project's bank, Oak Valley Community Bank, as deposits.

Loss of dam structures is not presently covered by insurance. Management believes that insurance for loss of dam structures is not financially feasible, even if available. Loss of revenue due to business interruption is presently insured to \$15,000,000 with a 30 day waiting period and a 6 months maximum coverage period. There is no assurance that continued business interruption insurance will be cost-effective.

Net additions to 'Property, Plant, and Equipment' for 2007 amounted to \$544,000 compared to \$736,000 for 2006, and \$2,654,000 for 2005. Of the 2007 additions to plant, physical security improvements (\$354,000) and fire suppression upgrades the three plants (\$165,000) account for most of the expenditures.

Approximately \$5,800,000 has been budgeted for capital improvements for 2008. Of this sum, \$4,500,000 is for addition of a third generator at Tulloch and \$540,000 for penstock and spiral case coating at Tulloch, \$200,000 for spare transformers at Beardsley, and the balance (\$760,000) for on-going project enhancements including, personal safety equipment, vehicles, communications infrastructure, a water tank, and roofing.

Over a longer horizon, 5 to 10 years, management expects that Tri-Dam Project will increase annual investment in each of the generating plants and related facilities. Various interconnections and refinements of existing systems are expected to be required by the California Independent System Operator to achieve more optimal control over generation. These costs are unknown but expected to be in the tens of thousands of dollars per year for the next few years. Except as noted below, with the necessary substantial generating and control improvements now completed management expects that it will be 10 to 15 years before significant annual investments are required for generating and operating systems improvements.

The Tri-Dam Project may purchase or build a transmission line at an estimated cost of \$6,000,000. The addition of a third generating unit at Tulloch is under preliminary consideration; that might cost \$16,000,000.

**TRI-DAM PROJECT**  
**Management's Discussion and Analysis**  
**December 31, 2007**

**ASSETS, LIABILITIES, NET ASSETS, and CASH FLOWS - continued**

Depreciation and amortization (recorded as net expense) in 2007 reduced the net book value of all property, plant, and equipment by \$1,221,000.

Total Assets (cash, reserves, receivables, and net plant), decreased in 2007 by \$3,900,000 to \$74,221,000 (3%) from 2006. Total Net Assets (total assets minus liabilities – also referred to as 'equity') increased from \$76,081,000 to \$78,123,000 or \$2,043,000 (5%). This decrease reflects the effect that approximately \$3,900,000 was distributed to the Districts in 2007 in excess of 2007 net income; that is 2007 distributions of \$21,200,000 compared to 2007 net income of \$17,300,000.

The Tri-Dam Project's basic financial statements are designed to meet the needs of the Directors and management, comply with regulatory requirements, and offer other readers a general overview of the Tri-Dam Project's finances and evidence of accountability. Either the Chief Financial Officer or General Manager is available to interested persons to respond to questions or to provide appropriate supplemental information.

Sincerely yours,



Steve Felte  
General Manager



Jason Reed  
Chief Financial Officer

# ***FINANCIAL STATEMENTS***

**TRI-DAM PROJECT**  
**Statements of Net Assets**  
**December 31, 2007**  
(With Comparative Totals at December 31, 2006)

<b>ASSETS</b>	<u>2007</u>	<u>2006</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,593,000	\$ 108,643
Investments	28,058,075	37,214,801
Accounts receivable, PG&E	1,271,400	2,479,247
Accounts receivable, other	258,753	199,359
Accounts receivable - Tri-Dam Power Authority	4,475	36,146
Accrued interest receivable	365,700	351,452
Prepaid expenses	148,913	131,686
Totals	<u>36,700,316</u>	<u>40,521,335</u>
 <b>Property, Plant, and Equipment</b>		
Capital assets (note 3)	69,207,359	68,663,261
Accumulated depreciation	<u>(34,486,152)</u>	<u>(33,299,923)</u>
Totals	<u>34,721,206</u>	<u>35,363,338</u>
 <b>Other Assets</b>		
Relicensing costs	3,323,989	3,323,989
Accumulated amortization	<u>(70,226)</u>	<u>(35,173)</u>
Totals	<u>3,253,762</u>	<u>3,288,815</u>
 Total Assets	<u>\$ 74,675,285</u>	<u>\$ 79,173,488</u>
 <b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 142,941	\$ 239,900
Deferred Revenue	22,033	-
Deposits	53,584	51,746
Due to the Federal Energy Regulatory Commission	<u>90,000</u>	<u>614,519</u>
Totals	<u>308,558</u>	<u>906,165</u>
 <b>Long-Term Liabilities</b>		
Compensated absences	<u>145,468</u>	<u>143,855</u>
Totals	<u>145,468</u>	<u>143,855</u>
 Total Liabilities	<u>454,027</u>	<u>1,050,020</u>
 <b>NET ASSETS</b>		
Invested in capital assets	34,721,206	35,363,338
Unrestricted	<u>39,500,052</u>	<u>42,760,130</u>
Total Net Assets	<u>\$ 74,221,258</u>	<u>\$ 78,123,468</u>

The accompanying notes are an integral part of these financial statements



**TRI-DAM PROJECT**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Year Ended December 31, 2007**  
**(With Comparative Totals for Year Ended December 31, 2006)**

	<u>2007</u>	<u>2006</u>
<b>Operating Revenues</b>		
Power generation revenue	\$ 19,861,939	\$ 32,497,408
Headwater Benefit fees	293,400	286,247
Services to Tri-Dam Power Authority	320,990	263,685
Totals	<u>20,476,330</u>	<u>33,047,339</u>
<b>Operating Expenses</b>		
Operations	995,661	984,830
Maintenance	882,211	855,537
General and administrative	2,753,333	2,707,866
Depreciation and amortization	1,221,283	1,132,053
Totals	<u>5,852,488</u>	<u>5,680,286</u>
<b>Operating Income</b>	<u>14,623,842</u>	<u>27,367,053</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment earnings	1,596,719	1,784,450
Other nonoperating revenue	552,710	491,316
Fees waived for prior years	524,519	-
Totals	<u>2,673,948</u>	<u>2,275,766</u>
<b>Net Income</b>	17,297,790	29,642,820
Net Assets - Beginning of Year	78,123,468	76,080,648
<b>Less: Distributions to Districts</b>	<u>(21,200,000)</u>	<u>(27,600,000)</u>
<b>Net Assets - End of Year</b>	<u>\$ 74,221,258</u>	<u>\$ 78,123,468</u>

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

**TRI-DAM PROJECT**  
**Statement of Cash Flows**  
**Year Ended December 31, 2007**  
**(With Comparative Totals for Year Ended December 31, 2006)**

<b>Cash Flows Provided by (Used For)</b>	<u>2007</u>	<u>2006</u>
<b>Operating Activities</b>		
Cash received from customers for power generation	\$ 21,069,786	\$ 34,093,924
Other operating receipts, cash basis	646,061	616,349
Cash payments to supplies for goods & services	<u>(5,209,972)</u>	<u>(4,743,835)</u>
Net Cash Provided (Used)	<u>16,505,876</u>	<u>29,966,438</u>
<b>Nonoperating Activities</b>		
Nonoperating receipts, cash basis	<u>980,476</u>	<u>491,316</u>
Net Cash Provided (Used)	<u>980,476</u>	<u>491,316</u>
<b>Noncapital Financing Activities</b>		
Cash distribution to Districts	<u>(21,200,000)</u>	<u>(27,600,000)</u>
Net Cash Provided (Used)	<u>(21,200,000)</u>	<u>(27,600,000)</u>
<b>Capital and Related Financing Activities</b>		
Purchase and construction of capital assets, cash basis	<u>(544,098)</u>	<u>(736,017)</u>
Net Cash Provided (Used)	<u>(544,098)</u>	<u>(736,017)</u>
<b>Investing Activities</b>		
Sale (purchase) of investments, net	9,156,726	(3,914,488)
Investment earnings	<u>1,585,377</u>	<u>1,583,828</u>
Net Cash Provided (Used)	<u>10,742,103</u>	<u>(2,330,660)</u>
<b>Net Change in Cash and Cash Equivalents</b>	6,484,357	(208,923)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>108,643</u>	<u>317,566</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 6,593,000</u>	<u>\$ 108,643</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating Income	\$ 14,623,842	\$ 27,367,053
Adjustments to reconcile operating income to net cash provided by operating activities:		
Add Depreciation, a noncash expense	1,186,230	1,096,999
Add Amortization, a noncash expense	35,053	35,053
Less Depreciation, retired plant and equipment		(83,901)
Change in assets:		
Decrease (increase) in power generation receivable	1,207,847	1,597,053
Decrease (increase) in other receivables		(536)
Decrease (increase) in Tri-Dam Power Authority receivable	31,671	30,430
Decrease (increase) in prepaid expenses	17,227	15,290
Change in liabilities:		
Increase (decrease) in accounts payable	(96,959)	(156,787)
Increase (decrease) in deferred revenue	22,033	(14,259)
Increase (decrease) in deposits	1,838	2,233
Increase (decrease) in fees payable	(524,519)	74,099
Increase (decrease) in compensated absences	1,613	3,711
Net Cash Provided (Used) by Operating Activities	<u>\$ 16,505,876</u>	<u>\$ 29,966,438</u>

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

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Project as follows:

- Note 1 - Summary of Significant Accounting Policies
- Note 2 - Cash and Investments
- Note 3 - Capital Assets
- Note 4 - Distributions to Districts
- Note 5 - Power Generation Revenues and Receivables
- Note 6 - Risk Management
- Note 7 - Contingencies
- Note 8 - Defined Benefit Pension Plan

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 1 - Summary of Significant Accounting Policies**

A. Reporting Entity

The Tri-Dam Project (Project) is a joint venture of the Oakdale Irrigation District and the South San Joaquin Irrigation District (Districts). The Project consists of irrigation and power development on the Stanislaus River, including the Donnell's Dam, Donnell's Tunnel, Donnell's Plant, Beardsley Dam, Beardsley Plant, Beardsley Afterbay, Tulloch Plant, Goodwin Reservoir and Dam, and appurtenant facilities. The Project's principal activities are the storage and delivery of water to the Districts and the hydraulic generation of electricity. These activities are carried out pursuant to the Districts water rights and the Districts licenses issued by the Federal Energy Regulatory Commission (FERC).

Oversight responsibility, meaning the ability to appoint management and key employees, and authorize and approve contracts and financing arrangements, is exercised by a joint board of directors consisting of all five elected directors of the Oakdale Irrigation District and all five elected directors of the South San Joaquin Irrigation District.

The Tri-Dam Project issues financial statements as a separate reporting entity because of the historical joint exercise of oversight responsibility by both Districts.

The Tri-Dam Power Authority (Authority), an entity formed in 1982, under a Joint Exercise of Powers Agreements between the two Districts, is excluded from the accompanying financial statements. While the Authority has in substance the same joint board of directors as does the Project, the Project is not responsible for debts or other obligations of the Authority.

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

*Operations, Maintenance, and General and Administrative Activities.* Operations, maintenance, and general and administrative activities are combined in the accompanying financial statements within the current assets category and the cash and investment caption. The Joint Board of Directors has established by Resolution 2005-03 a policy and procedure to set aside certain monies as Project Reserves for future needs including major maintenance or replacements, implementation of certain contractually required infrastructure improvements (principally for public recreation purposes), and operating needs. Monies not needed for operational, maintenance, general and administrative costs or infrastructure changes may be withdrawn by the Districts, semi-annually and in equal shares, for any lawful purpose pursuant to that Resolution.

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 1 - Summary of Significant Accounting Policies (continued)**

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (continued)

*Maintenance Reserve.* A maintenance reserve was created by Joint Board of Directors Resolution 2005-03 for the purpose of retaining funds for the replacement and maintenance of critical elements of the water storage and delivery systems and of the hydroelectric generation facilities. The reserve amount increases annually based on the reserves' investment earnings and an index.

*Self-Insurance and Licensing Reserve.* A self-insurance and licensing reserve was created by Joint Board of Directors Resolution 2005-03 for the purpose of retaining funds for self-insurance, including the deductible amounts for insured coverage, and uninsured risks, and the future costs of implementing FERC license conditions. The reserve amount increases annually based on the reserves' investment earnings and an index.

*Operating Reserve.* An operating reserve was created by Joint Board of Directors Resolution 2005-03 for the purpose of retaining funds for future operating expenses.

The Project is accounted for on the flow of economic-resources-measurement-focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

The Project has elected to follow Paragraph 7 of Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Under this pronouncement, a governmental entity applies, for financial reporting purposes, all Financial Accounting Standards Board statements and related guidance except for those that conflict or contradict GASB pronouncements.

C. Assets, Liabilities, and Net Assets

1. *Deposits and Investments*

The Project's cash and cash equivalents are considered to be cash, demand deposits, money market funds, deposits with the State of California Local Agency Investment Fund (subject to withdrawal on demand), repurchase agreements, and short-term investments with original maturities of three months or less from the date of acquisition.

Trading securities are debt securities bought and held principally for the purpose of selling them in the near future.

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

***Note 1 - Summary of Significant Accounting Policies (continued)***

C. Assets, Liabilities, and Net Assets (continued)

1. *Deposits and Investments (continued)*

The Project, pursuant to its investment policy, may invest its funds in U.S. Government securities or other securities. The funds are substantially held by Union Bank of California as custodian.

The Project's investment policy authorizes investments to be made in U.S. Treasury securities, Federal Agency securities, mortgage-backed and asset-backed securities, corporate bonds rated "A" or better, floating rate notes, and money market funds all with maturity dates of less than five years.

2. *Receivables*

Trade accounts receivable are carried at net realizable values. The Project records power generation receivables for energy deliveries to PG&E.

3. *Prepayments*

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

4. *Restricted Assets*

The Project's Maintenance Reserve, Self-Insurance and Licensing Reserve, and Operating Reserve assets are carried as restricted assets because their use is limited by resolution of the Joint Board of Directors.

5. *Other Assets - Capitalized Relicensing Costs*

The Project completed the process in 2005 of applying for license renewals (Relicensing) from the Federal Energy Regulatory Commission (FERC) for the Project's hydroelectric generating facilities. The former 50-year licenses expired on December 31, 2004 with extensions through 2005. New licenses were issued in February 2006 for all existing facilities. The licenses extend through December 31, 2045.

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 1 - Summary of Significant Accounting Policies (continued)**

C. Assets, Liabilities, and Equity (continued)

5. *Other Assets - Capitalized Relicensing Costs (continued)*

The Relicensing process involved a substantial commitment of staff resources, formal consultation with several federal and state agencies, the acceptance of public input, the conduct of numerous studies, and the public filing of documents and reports. The process was undertaken cooperatively with Pacific Gas & Electric Company (PG&E). PG&E has FERC-licensed facilities in the same watershed. The Project incurred \$3,324,000 in Relicensing costs between 2000 and 2005. The Project will amortize these costs over the 40 year term of the new licenses. It is anticipated that conditions attached to the new license will require the expenditure of between \$2 million and \$4 million in Project funds between 2006 and 2010 for recreation and wildlife-related activities. Other license conditions require a reduction in generation by approximately five percent annually for the term of the new license.

6. *Cash and Cash Equivalents*

For the purposes of the statement of cash flows, the Project considers all highly liquid investments with a maturity of 100 days or less when purchased to be cash equivalents.

7. *Capital Assets*

Property, plant, and equipment are stated at historical cost. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital asset constructed, net of interest earned on the invested proceeds over the same period. Donated capital assets are valued at fair value at time of donation.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Class of Capital Asset</u>	<u>Estimated Lives in Years</u>
Dams	100
Buildings and turbines	50
Accessory equipment and fixtures	25
Equipment	10

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 1 - Summary of Significant Accounting Policies (continued)**

C. Assets, Liabilities, and Equity (concluded)

8. *Compensated Absences*

The policy of the Project is to permit employees to accumulate earned but unused vacation benefits. Vacation pay is accrued when incurred and reported as a liability of the Project.

9. *Net Assets*

Retained earnings are reserved for net assets held by the Project or for other purposes as established by the Joint Board of Directors. Cash distributions made by the Project to the Oakdale Irrigation District and South San Joaquin Irrigation District are recorded as charges against net assets.

D. Power Generation Revenues

The Project recognizes power generation revenues pursuant to the terms and provisions of a MASTER POWER PURCHASE AND SALE AGREEMENT between the Districts and PG&E, which Agreement was entered into in December 2005 and expires December 31, 2010.

The Agreement provides, generally, that Districts shall sell and deliver to PG&E during the term of the Agreement, and certain other documents and agreements all of the electric power and energy generated by Donnell's Plant, Beardsley Plant, and Tulloch Plant for variable prices referred to as the hourly NP-15 price. The NP-15 price is compiled and published by Dow Jones. The Agreement provides for certain penalties in the event that the Project does not perform as specified in the Agreement.

E. Related-Party Transactions

Significant related party transactions consisting primarily of cash distributions to the Districts are charged directly to net assets. Charges to the Tri-Dam Power Authority for operations, maintenance and administrative support expenses are incurred in the normal course of business, and for 2007 was approximately \$321,000.

F. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 1 - Summary of Significant Accounting Policies (concluded)**

G. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Project's financial position, operations, and cash flows. Selected prior year amounts have been reclassified to conform to the current year financial statement presentations.

H. Net Assets

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets.

I. Governmental Accounting Standards Board Statement No. 40

The Project adopted the provisions of GASB Statement No. 40, *Deposits and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The statement requires certain disclosures of investment that have fair values that are highly sensitive to changes in interest rates.

**Note 2 - Cash and Investments**

Cash and investments as of December 31, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and cash equivalents	\$ 11,897,544
Cash and investments	<u>22,753,532</u>
 Total cash and investments	 <u>\$ 34,651,076</u>

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 2 - Cash and Investments (continued)**

Cash and investments as of December 31, 2007 consist of the following:

Deposits with financial institutions in:	
• Money market accounts	\$ 68,351
• Commercial Paper	5,236,193
• Checking accounts	28,934
Investment in Local Agency Investment Fund (LAIF)	6,564,066
Investment in US Government obligations	<u>22,753,531</u>
 Total cash and investments	 <u>\$ 34,651,075</u>

Investments Authorized by the Project's Investment Policy

The Project's management is given discretion to invest funds for the benefit of Tri-Dam Project. All funds invested are managed to meet the guidelines stated in both California Code Section 53600, et. seq. and the Project's investment policy. The following additional guidelines and directives are followed by management:

1. The legal, final maturity of any single security within the investment portfolio will not exceed five years at purchase, with maturities laddered to protect against market swings.
2. The *weighted average life* of the portfolio will not exceed three years.
3. Corporate obligations, including corporate debentures and medium-term notes, must be rated "A" or its equivalent or better by a nationally recognized rating service, and no more than 30% of the portfolio may be invested in this sector at any one time.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of fiscal year end, the weighted average maturity of the investments contained in the LAIF State investment pool is approximately 10.5 months. Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 2 - Cash and Investments (continued)**

Disclosures Relating to Interest Rate Risk (continued)

		<u>Maturity Date</u>
State investment pool (LAIF)	\$ 6,564,066	10.5 months average maturity
US Government obligations	22,753,531	3.4 months average maturity
Commercial paper	5,236,193	2.0 month average maturity
Money Market	68,351	N/A
Total	<u>\$ 34,622,141</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Project investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Project deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Project's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 2 - Cash and Investments (concluded)**

Concentration of Credit Risk

The investment policy of the Project contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code except that no more than 30% of the portfolio may be invested in Corporate obligations.

Investment in State Investment Pool

The Project is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Project's investment in this pool is reported in the accompanying financial statements at amounts based upon the Project's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**Note 3 - Distributions to Districts**

The Project provided the following cash distributions from surplus operation funds:

	<u>2007</u>	<u>2006</u>
Oakdale Irrigation District	\$ 10,600,000	\$ 13,800,000
South San Joaquin Irrigation District	10,600,000	13,800,000
Total	<u>\$ 21,200,000</u>	<u>\$ 27,600,000</u>

In January 2008, the Project provided cash distributions to the Districts in the amount of \$5,200,000.

**Note 4 - Power Generation Revenues and Receivables**

Power generation revenues were provided by:

	<u>2007</u>	<u>2006</u>
Energy deliveries	\$ 19,861,939	\$ 32,497,408
Headwater Benefit to PG&E	293,400	286,247
Total	<u>\$ 20,155,339</u>	<u>\$ 32,783,655</u>

At December 31, 2007, power generation receivables in the amount of \$1,271,400 represented revenues earned from energy deliveries and capacity for the month of December 2007.

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 5 - Capital Assets**

Capital Assets activity for the year ended December 31, 2007 consists of the following:

Description	Beginning of Year	Additions	Retirements	End of Year
Land	\$ 196,313	\$ -	\$ -	\$ 196,313
Dam and Power Plants	41,269,561	-	-	41,269,561
Reservoir, Dam, Water	901,052	88,867	-	989,919
Water, Wheel, Turbines, Generators	7,250,899	-	-	7,250,899
Accessory Electrical Equipment	1,244,266	31,739	-	1,276,005
Service Center	259,177	-	-	259,177
Miscellaneous Power Plant Equipment	1,983,923	165,101	-	2,149,024
Railroad Relocation	1,082,161	-	-	1,082,161
Streamgaging Station	88,947	7,500	-	96,447
Telemetry	2,905,435	-	-	2,905,435
Housing	623,140	-	-	623,140
Capitalized Interest	5,163,904	-	-	5,163,904
Engineering Costs	5,565,085	-	-	5,565,085
Office Furniture and Equipment	82,328	11,227	-	93,555
Transportation Equipment	1,057,569	37,818	-	1,095,387
Tools, Shop and Garage Equipment	33,512	-	-	33,512
Power Operated Equipment	25,370	-	-	25,370
Communication Equipment	149,728	-	-	149,728
Miscellaneous Equipment	135,272	367,396	-	502,668
Construction in Progress	165,550	-	(165,550)	-
Interest/Gain on Construction Investment	(1,519,931)	-	-	(1,519,931)
<b>Total Capital Assets</b>	<b>68,663,261</b>	<b>709,648</b>	<b>(165,550)</b>	<b>69,207,359</b>
<b>Accumulated Depreciation</b>	<b>(33,299,923)</b>	<b>(1,186,230)</b>	<b>-</b>	<b>(34,486,153)</b>
<b>Net Capital Assets</b>	<b>\$ 35,363,338</b>	<b>\$ (476,582)</b>	<b>\$ (165,550)</b>	<b>\$ 34,721,206</b>

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

***Note 6 - Risk Management***

The Project is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters, for which the Project carries commercial insurance. The Project carries, jointly with the Tri-Dam Power Authority, commercial insurance coverage which includes \$75 million on real and personal property (excluding dams and penstocks), \$15 million business income interruption coverage (30 days waiting period and 6 months period of indemnity). The Project also carries \$1 million general liability for all owned vehicles. There were no settlements in 2007 that exceeded applicable coverage.

***Note 7 - Contingencies***

*Water Rights.* The State Water Resources Control Board (SWRCB) has been conducting water-rights hearings to implement the Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary it adopted in May 1995. Oakdale Irrigation District and South San Joaquin Irrigation District (Districts) joined other irrigation districts in proposing the *San Joaquin River Group Agreement* (Agreement) to the SWRCB. The water flow schedules in the Agreement were adopted by the SWRCB (Decision 1641). It is expected that the Decision will be challenged in court and that the Districts will be obliged to defend the action. If the action to set aside the Decision is successful, the impact on the Project is uncertain.

*Tulloch Power Generation.* The CVPIA passed by Congress in 1992 provides for substantial changes in operation of the New Melones Reservoir. The impact of these changes upon power generation at the Tulloch plant cannot be presently determined, but could be significant because power generation at Tulloch is controlled by New Melones operating conditions.

***Note 8 - Defined Benefit Pension Plan***

Plan Description

The Project contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 "P" Street, Sacramento, California 95814.

**TRI-DAM PROJECT**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 8 - Defined Benefit Pension Plan (continued)**

Funding Status and Progress

Participants are required to contribute 7% of their annual salary. Of that 7%, the Project contributes 6%, while the employees contribute 1%. The Employer is required to contribute at an actuarially determined rate of annual covered payroll. The contribution requirements of plan members and the Employer are established and may be amended by PERS. The required employer contribution rate for was 9.95% 2007, and 6.6% for 2006.

Annual Pension Cost

The Project's annual pension cost of \$245,253 for 2007 and \$219,577 for 2006 for PERS was equal to the employer's required and actual contributions. The required 2007 contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) an 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, service and type of employment, (c) an inflation rate of 3.0%, and (d) a payroll growth rate of 3.25%.

**Three-Year Trend Information**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$ 154,338	100%	\$ -0-
6/30/06	219,577	100%	-0-
6/30/07	245,253	100%	-0-

***REQUIRED SUPPLEMENTARY INFORMATION***



**TRI-DAM PROJECT**  
**Schedule of Funding Progress**  
**Defined Benefit Pension Plan**  
**Year Ended December 31, 2007**

***Report Format***

Since the Project has less than 100 active members in each plan, it is required by CalPERS to participate in a risk pool. The following valuation reports the activity of the risk pool as a whole and not the specific activity of individual members such as the Project.

**Risk Pool's History of Funded Status and Funding Progress**

<u>Miscellaneous Plan 2% at 55</u>	<u>Actuarial Valuation Date - Fiscal Year Ended</u>		
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Actuarial Value of Assets	\$ 2,492,226,176	\$ 2,588,713,000	\$ 428,025,075
Actuarial Accrued Liabilities	2,754,396,608	2,891,460,651	437,494,341
Unfunded (Overfunded) (UL)	262,170,432	302,747,651	9,469,266
Funded Ratio	90.5%	89.5%	97.8%
Annual Covered Payroll	699,897,835	755,046,679	159,135,314
UL as a Percentage of Payroll	37.5%	40.1%	6.0%

*Note - Details of the defined benefit pension plan can be found in Note 8 of the financial statements. Information for the fiscal year ended June 30, 2007 has not been released by the Plan Actuary.*

## ***SUPPLEMENTARY INFORMATION***

**TRI-DAM PROJECT**  
**Schedule of Operations and Maintenance Expenses**  
**Year Ended December 31, 2007**  
**(With Comparative Totals for Year Ended December 31, 2006)**

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	<b>2007</b>	<b>2006</b>
<b>Donnells Facility</b>		
Operations		
Supervision wages and benefits	\$ 23,279	\$ 23,661
Hydraulic wages and benefits	17,512	9,550
Electric wages and benefits	145,419	135,831
Other wages and benefits	22,604	19,013
Supplies and materials	5,036	4,443
Total Operations	213,849	192,498
Maintenance		
Supervision wages and benefits	40,249	41,855
Structures wages and benefits	13,301	7,206
Reservoirs and dams wages and benefits	26,328	27,423
Electrical plant wages and benefits	52,458	89,231
Other wages and benefits	15,309	56,631
High voltage wages and benefits	615	396
Communications and security wages and benefits	17,902	-
Supplies and materials	70,448	42,856
Total Maintenance	236,611	265,598
Total Donnells Facility	450,460	458,096
 <b>Beardsley Facility</b>		
Operations		
Supervision wages and benefits	19,028	17,507
Hydraulic wages and benefits	17,605	20,626
Electric wages and benefits	142,114	125,488
Other wages and benefits	23,679	26,705
Supplies and materials	2,398	2,975
Total Operations	204,824	193,302
Maintenance		
Supervision wages and benefits	34,549	39,185
Structures wages and benefits	6,978	7,773
Reservoirs and dams wages and benefits	18,470	18,126
Electrical plant wages and benefits	61,097	43,778
Other wages and benefits	16,696	69,030
High voltage wages and benefits	261	-
Communications and security wages and benefits	16,286	-
Supplies and materials	44,850	37,078
Total Maintenance	199,187	214,969
General and Administrative		
Other wages and benefits	-	468
USFS Resource Management Support	8,344	109,123
Total General & Administrative Beardsley	8,344	109,591
Total Beardsley Facility	412,355	517,862

**TRI-DAM PROJECT**  
**Schedule of Operations and Maintenance Expenses**  
**Year Ended December 31, 2007**  
**(With Comparative Totals for Year Ended December 31, 2006)**

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	<b>2007</b>	<b>2006</b>
<b>Tulloch Facility</b>		
Operations		
Supervision wages and benefits	\$ 19,028	\$ 17,454
Hydraulic wages and benefits	20,364	21,221
Electric wages and benefits	164,441	142,613
Other wages and benefits	1,886	9,519
Supplies and materials	2,886	2,940
Total Operations	208,606	193,747
Maintenance		
Supervision wages and benefits	52,380	46,483
Structures wages and benefits	7,150	16,312
Reservoirs and dams wages and benefits	23,715	43,718
Electrical plant wages and benefits	93,324	30,425
Other wages and benefits	23,380	43,721
High voltage wages and benefits	1,824	-
Communications and security wages and benefits	4,786	-
Supplies and materials	22,929	23,724
Total Maintenance	229,489	204,383
General and Administrative		
Headwater Benefit Assessment	92,737	89,943
Total Tulloch Facility	530,832	488,073
 <b>Goodwin Facility</b>		
Operations		
Supervision wages and benefits	29,560	25,926
Hydraulic wages and benefits	19,660	19,743
Electric wages and benefits	89,603	72,148
Other wages and benefits	734	-
Supplies and materials	1,413	1,419
Total Operations	140,970	119,235
Maintenance		
Supervision wages and benefits	2,658	1,190
Structures wages and benefits	-	234
Reservoirs and dams wages and benefits	2,724	1,536
Other wages and benefits	-	375
Communications and security wages and benefits	18,799	-
Supplies and materials	887	-
Total Maintenance	25,068	3,334
General and Administrative		
Administrative wages and benefits	7,962	7,115
Contract Services	1,978	1,614
Property insurance	5,062	5,423
Dam safety fees	10,579	9,816
Streamgaging	47,570	40,459
Other	2,400	2,400
Total General & Administrative Goodwin	75,551	66,827
Total Goodwin Facility	241,589	189,396

**TRI-DAM PROJECT**  
**Schedule of Operations and Maintenance Expenses**  
**Year Ended December 31, 2007**  
**(With Comparative Totals for Year Ended December 31, 2006)**

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	<u>2007</u>	<u>2006</u>
<b>Mt Elizabeth Facility</b>		
Operations		
Supplies and materials	\$ 9,985	\$ 9,567
Maintenance		
Supervision wages and benefits	2,099	2,685
Structures wages and benefits	6,115	457
Other wages and benefits	3,268	4,441
Communications and security wages and benefits	10,380	-
Supplies and materials	284	3,951
Total Maintenance	<u>22,147</u>	<u>11,534</u>
Total Mt. Elizabeth Facility	<u>32,133</u>	<u>21,101</u>
<b>Strawberry Peak Facility</b>		
Operations		
Supplies and materials	6,421	6,843
Maintenance		
Supervision wages and benefits	2,519	1,811
Structures wages and benefits	972	-
Other wages and benefits	1,390	1,414
Communications and security wages and benefits	12,185	-
Supplies and materials	-	87
Total Maintenance	<u>17,066</u>	<u>3,312</u>
Total Strawberry Peak	<u>23,487</u>	<u>10,155</u>
<b>Operations Center</b>		
Operations		
Supervision wages and benefits	19,058	21,360
Hydraulic wages and benefits	931	4,851
Electric wages and benefits	52,509	127,803
Supplies and materials	4,916	2,846
Total Operations	<u>77,413</u>	<u>156,860</u>
Maintenance		
Supervision wages and benefits	1,664	469
Structures wages and benefits	-	-
Other wages and benefits	-	1,843
Communications and security wages and benefits	4,218	-
Supplies and materials	771	820
Total Maintenance	<u>6,654</u>	<u>3,131</u>
Total Operations Center	<u>84,067</u>	<u>159,991</u>
<b>Service Center Facilities</b>		
Operations		
Hydraulic wages and benefits	-	2,380
Maintenance		
Supervision wages and benefits	1,255	-
Structures wages and benefits	-	2,708
Equipment wages and benefits	21,047	29,399
Supplies and materials	101,593	98,751
Total Maintenance	<u>123,895</u>	<u>130,857</u>
Total Service Center	<u>123,895</u>	<u>133,237</u>

**TRI-DAM PROJECT**  
**Schedule of Operations and Maintenance Expenses**  
**Year Ended December 31, 2007**  
**(With Comparative Totals for Year Ended December 31, 2006)**

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	2007	2006
<b>Division Point Facility</b>		
Operations		
Supervision wages and benefits	\$ 19,288	\$ 19,108
Hydraulic wages and benefits	22,618	16,613
Electric wages and benefits	90,348	73,483
Supplies and materials	1,338	1,194
Total Operations	133,593	110,398
Maintenance		
Supervision wages and benefits	3,773	5,819
Structures wages and benefits	1,284	168
Reservoirs and dams wages and benefits	-	2,242
Other wages and benefits	1,948	4,196
Communications and security wages and benefits	15,009	
Supplies and materials	80	5,993
Total Maintenance	22,094	18,418
Total Division Point	155,687	128,816
Total Operations & Maintenance	\$ 2,054,505	\$ 2,106,728
 <b>General and Administrative</b>		
Administrative wages and benefits	\$ 344,509	\$ 304,943
Office supplies and expense	39,832	32,743
Safety fees and expense	98,941	91,812
Outside services	1,376,359	1,262,059
Property insurance	245,606	248,455
FERC license fees	282,475	318,313
State Water Rights fees	-	1,011
Other wages and benefits	55,457	55,796
County taxes	1,133	1,108
Streamgaging	35,796	46,598
Meals allowances and travel expense	17,370	17,947
Utilities	22,397	22,473
Computer supplies	7,498	9,531
Telephone, internet, data links	21,383	12,427
Miscellaneous	15,547	16,290
Professional organizations	12,397	
Total General and Administrative	2,576,700	2,441,505
 <b>Depreciation and Amortization</b>	1,221,283	1,132,053
Grand Total All Expenses	\$ 5,852,488	\$ 5,680,286
 <b>Recapitulation</b>		
Operations	995,661	984,830
Maintenance	882,211	855,537
General and administrative	2,753,333	2,707,866
Total Operations, Maintenance, G&A	4,631,205	4,548,233
Depreciation and amortization	1,221,283	1,132,053
Grand Total All Expenses	\$ 5,852,488	\$ 5,680,286

## ***OTHER REPORTS***

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the Tri-Dam Project (Project) as of and for the year ended December 31, 2007, which collectively comprise the Project's basic financial statements and have issued our report thereon dated February 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management, the Board of Directors, and the State Controller's Office of the State of California is not intended to be and should not be used by anyone other than these specified parties.

*Nicholson & Olson*

Certified Public Accountants  
Roseville, California  
February 15, 2008