TRI-DAM PROJECT

Strawberry, California

Annual Financial Report
December 31, 2008

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TRI-DAM PROJECT

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MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825 / (916) 979-9079

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Tri-Dam Project (the Project) as of and for the year ended December 31, 2008, which collectively comprise the Project's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Project's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Tri-Dam Project as of December 31, 2007 are presented for comparative purposes only and were audited by other auditors whose report dated February 15, 2008 expressed an unqualified opinion on those statements.

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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Tri-Dam Project as of December 31, 2008, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the 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 take as a whole.

Marcello & Company

Certified Public Accountants
Sacramento, California
February 27, 2009

TRI-DAM PROJECT
Management's Discussion and Analysis
December 31, 2008

March 6, 2009

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, 2008. 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 27, 2009 on those statements.

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 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 Donnells 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. Water is delivered by Tri-Dam Project to each District's water conveyance systems (canals) without charge.

Electric output of the Project has been sold to Pacific Gas & Electric Company (PG&E) under a five year index-price-based agreement which was terminated after four years on December 31, 2008 by agreement of PG&E and Project. The Project paid $1,000,000 to PG&E for the right to terminate early. That sum was reimbursed to the Project by Shell Energy North America (SENA) as part their negotiations with the Project for five year agreement to market the Project's energy production beginning January 1, 2009.

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.

Federal License to Operate Facilities

The Federal Energy Regulatory Commission (FERC) licenses the dams, reservoirs, and power plants. The original 50-year licenses, one for Donnells 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 was 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. Feasibility and engineering design work for that generator began during 2007 and continued through 2008 with approximately $3,400,000 having been expended through 2008. In early 2009 construction of an access road to the generator site was started.

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.

REVENUE

Overall revenue for 2008 was $31,161,000. This compares to $23,150,000 for 2007, an increase of $8,011,000 (35%). The sale of energy – **Sale of Energy & Related** – accounts for 90% of the Project's revenue stream ($28,100,000). Headwater benefit income from PG&E and certain costs from the US Bureau of Reclamation in connection with New Melones are included in this category. **Other Revenues** (operating and non-operating) - is comprised of a combination of fees, charges, rentals, reimbursements, and other miscellaneous income.

The table below provides more information on Nonoperating revenue.

	2008	2007	Change	Change
Other Revenues				
Sale of Energy & Related	$ 28,098,973	$ 20,227,539	$ 7,871,433	38.9%
Nonoperating Revenues				
Interest Earned	973,629	1,596,719	(623,089)	-39.0%
Shell Payment to Terminate PG&E Agreement	1,000,000	-	1,000,000	
Services to Tri-Dam Power Authority	406,927	320,990	85,937	26.8%
Services to Stockton East Water District	196,535	74,300	122,235	164.5%
Land Sales - Tulloch Reservoir	140,242	143,815	(3,573)	-2.5%
Water Sales	122,198	116,840	5,358	4.6%
Rental Income	49,469	55,447	(5,978)	-10.8%
Encroachment Permits - Tulloch Reservoir	11,500	14,500	(3,000)	-20.7%
Other	161,088	75,610	85,478	113.1%
Forgiveness of Prior Year Fees - FERC	-	524,519	(524,519)	
Total Nonoperating Revenues	3,061,589	2,922,740	138,849	4.8%
Total Revenues	$ 31,160,562	$ 23,150,279	$ 8,010,283	34.6%

SALE OF ENERGY & RELATED

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' was under contract to Pacific Gas and Electric Company (PG&E) through December 31, 2008. It was terminated December 31, 2008 as described above.

Management budgeted $25,900,000 in 2008 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 $27,735,000 was actually realized during 2008; an increase from the budget of about $2,000,000. The increase in power revenue from 2007 to 2008 and positive variance from the 2008 budget owes to more favorable hydrologic conditions (available runoff) than we had forecast. The overall effect was about 13% more generation.

Additionally the average energy price the Project was paid under the PG&E contract was about 24% higher for 2008 than for 2007. This fact reflects an increase in wholesale energy prices between the two years. Power generation revenue for 2009 has been budgeted at $31,700,000 reflecting 'normal' prices and hydrologic conditions together with the incentives that are part of the agreement with SENA.

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 reasonable estimates of the fees, charges, and penalties that are likely to be incurred during normal operation of the power plants.

NONOPERATING REVENUES

Earnings from medium and short term investments, including changes in market valuation of securities, were $974,000 for 2008. In the prior year, earnings from the same sources were $1,596,000. Management expects investment earnings for 2009 to be less than those for 2008 reflecting a general decline in interest rates. Earnings will, of course, also reflect future funds available for investment.

Other revenues for Tri-Dam Project are set forth in the table above. Management believes that similar amounts will be received during 2009. There are two unusual sources of non-operating revenues during 2008 and 2007: real property sales at Tulloch Reservoir and the retroactive waiver of accrued, but unpaid, FERC fees and interest for the fiscal years 2002 through 2006.

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 2008.

As part of the federal re-licensing process Tri-Dam realized and communicated to the FERC that the Donnells 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 broad areas: ***wage and benefits***; ***other operating costs***; ***depreciation/ amortization***. These can be understood by looking at them from different perspectives.

The three tables that follow set forth all Project expenses.

The first table reflects expense by location with depreciation and amortization as a single number. The expenses for Goodwin Facility represent all of the expense of operation at that location before a one-third cost sharing with Stockton East Water District.

Location	2008	2007	Change	Change
Donnells Facility	$ 654,807	$ 450,460	$ 204,346	45.4%
Beardsley Facility	413,061	412,355	707	0.2%
Tulloch Facility	510,604	530,832	(20,228)	-3.8%
Goodwin Facility	242,337	241,589	748	0.3%
Mt. Elizabeth Facility	21,201	32,133	(10,932)	-34.0%
Strawberry Peak	36,140	23,487	12,653	53.9%
Operations Center - Strawberry	93,905	84,067	9,838	11.7%
Service Center - Beardsley	190,468	123,895	66,573	53.7%
Division Point	141,337	155,687	(14,349)	-9.2%
General and Administrative	4,045,987	2,576,701	1,469,286	57.0%
Depreciation and Amortization	1,070,245	1,221,283	(151,037)	-12.4%
Grand Total All Expense	$ 7,420,094	$ 5,852,489	$ 1,567,605	26.8%

The second table sets forth Project expenses by functional activity: Operations, Maintenance, Administrative, and Depreciation & amortization.

Activity	2008	2007	Change	Change
Operations	$ 1,111,993	$ 995,661	$ 116,331	11.7%
Maintenance	1,012,041	882,211	129,830	14.7%
General and administrative	4,225,814	2,753,333	1,472,481	53.5%
Depreciation and amortization	1,070,245	1,221,283	(151,037)	-12.4%
Grand Total All Expense	$ 7,420,094	$ 5,852,489	$ 1,567,605	26.8%

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The third table reflects Project expenses by nature of expense.

Type of Expense	2008	2007	Change	Change
Wages & Benefits	$ 2,215,633	$ 2,009,563	$ 206,070	10.3%
Other Operating Costs				
Supplies & Materials	362,159	276,236	85,923	31.1%
Outside services	1,818,343	1,378,337	440,006	31.9%
PG&E Termination Fee	1,000,000	-	1,000,000	
FERC license fees	284,586	282,475	2,111	0.7%
Property insurance	229,940	250,668	(20,728)	-8.3%
Safety fees and expense	113,822	109,520	4,302	3.9%
Streamgaging	101,381	83,366	18,015	21.6%
Headwater Benefit Assessment	90,089	92,737	(2,648)	-2.9%
Office supplies and expense	38,755	39,832	(1,078)	-2.7%
Utilities	27,303	22,397	4,906	21.9%
Meals allowances and travel expense	17,032	17,370	(338)	-1.9%
Telephone, internet, data links	15,473	21,383	(5,910)	-27.6%
Other	15,541	17,948	(2,408)	-13.4%
Computer supplies	6,841	7,498	(657)	-8.8%
State Water Rights fees	2,012	-	2,012	
Professional organizations	1,500	12,397	(10,897)	-87.9%
County taxes	1,313	1,133	180	15.9%
USFS Resource Management Support	8,126	8,344	(218)	-2.6%
Total Other Than Wages & Benefits	4,134,215	2,621,642	1,512,573	57.7%
Depreciation & Amortization				
Depreciation Capital Assets	1,006,426	1,186,230	(179,803)	-15.2%
Amortization Relicensing	63,819	35,053	28,766	82.1%
Total Depreciation & Amortization	1,070,245	1,221,283	(151,037)	-12.4%
Grand Total All Expense	$ 7,420,094	$ 5,852,489	$ 1,567,605	26.8%

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 interns working full time for 3 months are part of the Maintenance Department staff.

The labor agreement covering represented employees was ratified to be effective for the four years March 1, 2008 through February 28, 2012. The agreement provides for a 4% increase in wage rates on March 1, 2008 and annually for the three successive years and also for certain benefits improvements. 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.

The labor agreement provides that retirees who complete at least 10 years of service and are at least age 55 as of their retirement date are eligible to share the cost of the retiree's health care premium fifty-fifty with the Project. The Tri-Dam Project contribution terminates when the retiree reaches age 65. There are 5 retired persons presently covered by this provision.

All wages (productive and non-productive) and overhead paid or accrued for 2008 amounted to $2,658,400 compared to $2,459,400 for 2007. In 2008 $442,800 of wages and benefits were allocated to, or reimbursed by, capital expenditures and Tri-Dam Power Authority. This compares to $449,900 for 2007. The net operating cost to the Project for wages and benefits was, therefore, $2,215,600 for 2008 and $2,009,600 for 2007 as reflected in the table above.

Other operating costs include non-payroll expenses for operations, maintenance, and administration of the Project. Exclusive of depreciation and amortization, they totaled $4,134,000 for 2008, and $2,622,000 for 2007. 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 $491,800 for 2008 and $485,900 for 2007. ***Purchased insurance*** was $230,000 for 2008 and $250,700 for 2007. These amounts are net of reimbursement from the Tri-Dam Power Authority of approximately 25% of the premium costs representing management's estimate of the Authority's share.

- ***Professional fees (Outside services)*** costs amount to $1,818,300 for 2008, and $1,378,300 for 2007 (a 32% increase) and include investment management, legal, labor consulting, and accounting fees, fish biology consultants, consultants assisting with the implementation of FERC license conditions, consultants required to provide technical studies for regulatory agencies, and studies and expenses in connection with protecting the District's water rights. Tri-Dam Power Authority contributed $406,900 and Stockton East Water District contributed $100,000 toward these expenses (reflected in Nonoperating revenue). Management expects continuing expenses in these categories in the future as the terms of the FERC license are implemented on US Forest Service lands.

- ***All other expenses*** (supplies, parts, fuel, utilities, telephone, vehicle operation and maintenance, data processing, and the like) and exclusive of the fee paid to PG&E for the power contract termination ($1,000,000) amounted to $492,000 for 2008 and $423,300 for 2007 a 16% increase.

- ***Other operating costs*** are expected to rise somewhat for future years as the federal and state governments have established a pattern of increasing the fees and assessments charged to Tri-Dam Project (and similarly situated entities). Future environmental and recreational mitigation costs (discussed above) will be in addition to "other operating costs" discussed here.

- ***Depreciation and amortization*** amounted to $1,070,200 for 2008, and $1,221,000 for 2007.

An adjustment of $482,477 was made for reclassification of certain expenses recorded for 2006 ($65,042) and 2007 ($417,435). These amounts were expended for the years indicated for preliminary work on a possible 3rd generating unit at Tulloch. During 2008 a decision was made to proceed with that project. The expenses incurred during 2006 and 2007 have been reclassified to Capital Assets and have been aggregated with expenses incurred during 2008 ($2,910,290).

DISTRIBUTION OF EARNINGS

The Joint Board of Director's adopted, in February 2008 (amended), RESOLUTION **ESTABLISHING RESERVES FUNDS & SEMI ANNUAL DISTRIBUTIONS FOR TRI-DAM PROJECT**. The amended resolution establishes Project Reserves, including Maintenance Reserve, Self-Insurance and Licensing Reserve, and an Operating Reserve. These are categorized as "Investments" on the Project's Statement of Net Assets ($21,985,000) and "Cash" ($16,007,000) at December 31, 2008.

The ***Maintenance Reserve*** was initially funded at $15,000,000 and will increase with an annual transfer-in from revenues equal to the July 1st 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, 2008 stands at approximately $17,347,000 and $16,816,000 at the end of 2007.

The ***Self-Insurance and Licensing Reserve*** was initially funded at $4,000,000 and will increase with an annual transfer-in from revenues equal to the July 1st 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, 2008 stands at approximately $4,638,000 and $4,497,000 at the end of 2007.

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, 2008 stands at $16,007,000 and $6,567,000 at the end of 2007 which is reflected as the Project's funds on deposit with the State of California's Local Agency Investment Fund (LAIF).

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 $18,800,000 in 2008, $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 $8,400,000 have been made thus far in 2009.

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 $37,993,000 in funds on hand at December 31, 2008, approximately 58% ($21,985,000) representing longer-term needs was under the fee-based management of Highmark Capital, a subsidiary of Union Bank of California. The balance, 42% ($16,007,000) representing shorter-term needs, was under the management of Tri-Dam management and, at year's end, fully invested with LAIF.

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 in 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 2008 amounted to $3,300,000 compared to $544,000 for 2007. Of the 2008 additions over $3,000,000 is represented by fees and expenses related to engineering fees, expenses and equipment for the addition of a third generating unit to the Tulloch plant.

Approximately $5,500,000 has been budgeted for capital improvements for 2009. Of this sum, $3,300,000 is for addition of a third generator at Tulloch and $540,000 for penstock and spiral case coating at Tulloch, and the balance ($1,660,000) for FERC license-conditions implementation ($750,000) and 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.

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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 in final engineering design. Management estimates that the complete cost for the third generating unit will be approximately $16,000,000.

Depreciation and amortization (recorded as expense) in 2008 reduced the net book value of all property, plant, and equipment by $1,006,000.

Total Assets (cash, reserves, receivables, and net plant), increased in 2008 by $5,739,000 to $80,414,000 (8%) from 2007. Total Net Assets (total assets minus liabilities – also referred to as 'equity') increased from $74,221,000 to $79,644,000 or $5,423,000 (7%).

This increase reflects the effect that approximately $4,860,000 less was distributed to the Districts in 2008 compared to 2008 net income; that is 2008 distributions of $18,800,000 compared to 2008 net income of $23,740,000. The opposite situation occurred in 2007: Net Income of $17,298,000 compared to distributions to the Districts of $21,200,000.

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

BASIC FINANCIAL STATEMENTS

TRI-DAM PROJECT
Statements of Net Assets
December 31, 2008

ASSETS	2008	*for comparative purposes only* 2007
Current Assets		
Cash and cash equivalents	$ 16,008,116	$ 6,593,000
Investments	21,984,768	28,058,075
Accounts receivable, PG&E	1,423,142	1,271,400
Accounts receivable, other	381,667	258,753
Accounts receivable - Tri-Dam Power Authority	32,950	4,475
Accrued interest receivable	112,700	365,700
Prepaid expenses	175,868	148,913
Totals	40,119,211	36,700,316
Property, Plant, and Equipment		
Capital assets (note 4)	72,597,254	69,207,359
Accumulated depreciation	(35,492,578)	(34,486,153)
Totals	37,104,676	34,721,206
Other Assets		
Relicensing costs	3,323,989	3,323,989
Accumulated amortization	(134,046)	(70,227)
Totals	3,189,943	3,253,762
Total Assets	$ 80,413,830	$ 74,675,284
LIABILITIES		
Current Liabilities		
Accounts payable	$ 466,884	$ 142,941
Deferred Revenue	9,314	22,033
Deposits	54,498	53,584
Due to the Federal Energy Regulatory Commission	90,000	90,000
Totals	620,696	308,558
Long-Term Liabilities		
Compensated absences	148,930	145,468
Totals	148,930	145,468
Total Liabilities	769,626	454,026
NET ASSETS		
Invested in capital assets	37,104,676	34,721,206
Unrestricted	42,539,528	39,500,052
Total Net Assets	$ 79,644,204	$ 74,221,258

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, 2008

	2008	*for comparative purposes only* 2007
Operating Revenues		
Power generation revenue	$ 27,734,586	$ 19,861,940
Headwater Benefit fees	294,717	293,400
Services to Tri-Dam Power Authority	406,927	320,990
Totals	28,436,230	20,476,330
Operating Expenses		
Operations	1,111,992	995,661
Maintenance	1,012,042	882,211
General and administrative	4,225,814	2,753,333
Depreciation and amortization	1,070,245	1,221,283
Totals	7,420,093	5,852,488
Operating Income	21,016,137	14,623,842
Nonoperating Revenues (Expenses)		
Investment earnings	973,630	1,596,719
Other nonoperating revenue	1,750,702	552,710
Fees waived for prior years	-	524,519
Totals	2,724,332	2,673,948
Change in Net Assets	23,740,469	17,297,790
Net Assets - Beginning	74,221,258	78,123,468
Prior Period Adjustment	482,477	-
Net Assets - Beginning, as restated	74,703,735	78,123,468
Less: Distributions to Districts	(18,800,000)	(21,200,000)
Net Assets - End of Year	$ 79,644,204	$ 74,221,258

The accompanying notes are an integral part of these financial statements

TRI-DAM PROJECT
Statement of Cash Flows
Year Ended December 31, 2008

Cash Flows Provided by (Used for)	2008	*for comparative purposes only* 2007
Operating Activities		
Cash received from customers for power generation	$ 27,582,844	$ 21,069,786
Other operating receipts, cash basis	673,170	646,061
Cash payments to supplies for goods & services	(6,007,294)	(5,209,972)
Net Cash Provided (Used)	22,248,720	16,505,875
Nonoperating Activities		
Nonoperating receipts, cash basis	1,630,102	980,476
Net Cash Provided (Used)	1,630,102	980,476
Noncapital Financing Activities		
Cash distribution to Districts	(18,800,000)	(21,200,000)
Net Cash Provided (Used)	(18,800,000)	(21,200,000)
Capital and Related Financing Activates		
Purchase and construction of capital assets, cash basis	(2,907,418)	(544,098)
Net Cash Provided (Used)	(2,907,418)	(544,098)
Investing Activities		
Sale (purchase) of investments, net	6,073,307	9,156,726
Investment earnings	1,170,405	1,585,377
Net Cash Provided (Used)	7,243,712	10,742,103
Net Change in Cash and Cash Equivalents	9,415,116	6,484,357
Cash and Cash Equivalents - Beginning of Year	6,593,000	108,643
Cash and Cash Equivalents - End of Year	$ 16,008,116	$ 6,593,000
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	$ 21,016,137	$ 14,623,842
Operating Income		
Adjustments to reconcile operating income to net cash provided by operating activates:		
Add depreciation, a noncash expense	1,006,426	1,186,230
Add amortization, a noncash expense	63,819	35,053
Decrease (increase) in power generation receivable	(151,742)	1,207,847
Decrease (increase) in Tri-Dam Power Authority receivable	(28,474)	31,671
Decrease (increase) in prepaid expenses	26,955	17,227
Increase (decrease) in accounts payable	323,943	(96,960)
Increase (decrease) in deferred revenue	(12,720)	22,033
Increase (decrease) in deposits	914	1,838
Increase (decrease) in fees payable	-	(524,519)
Increase (decrease) in compensated absences	3,462	1,613
Net Cash Provided (Used) by Operating Activities	$ 22,248,720	$ 16,505,875

The accompanying notes are an integral part of these financial statements

TRI-DAM PROJECT
Notes to Financial Statements
December 31, 2008

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

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 Donnells Dam, Donnells Tunnel, Donnells 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 2008-02 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.

Maintenance Reserve: A maintenance reserve was created by Joint Board of Directors Resolution 2008-02 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 an index.

Self-Insurance and Licensing Reserve: A self-insurance and licensing reserve was created by Joint Board of Directors Resolution 2008-02 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 an index.

Note 1 - Summary of Significant Accounting Policies

Operating Reserve: An operating reserve was created by Joint Board of Directors Resolution 2008-02 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 (FASB) 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.

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

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.

Note 1 - Summary of Significant Accounting Policies

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.

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:

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

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.

Note 1 - Summary of Significant Accounting Policies

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.

C. 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 terminated December 31, 2008.

The Agreement provided, 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 Donnells 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.

D. 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 2008 was approximately $511,000.

E. 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.

F. 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.

Note 1 - Summary of Significant Accounting Policies (concluded)

F. Prior Period Comparative Financial Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

H. 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.

I. Revenues

Operating revenues are those revenues that are provided from power generation operations, headwater benefit fees, and operating expense reimbursements while all other revenues are reported as nonoperating revenues.

J. Allowance for Uncollectible Accounts

Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed

Note 2 - Cash and Investments

Cash and investments as of December 31, 2008 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and cash equivalents	$ 16,008,116
Investments	21,984,768
Total cash and investments	$ 37,992,884

Cash and investments as of December 31, 2008 consist of the following:

Deposits with financial institutions in:	
• Money market accounts	$ 30,890
• Checking accounts	927
Investment in Local Agency Investment Fund (LAIF)	16,007,189
Investment in Commercial Paper	6,083,946
Investment in Corporate obligations	3,949,932
Investment in US Government obligations	11,920,000
Total cash and investments	$ 37,992,884

Note 2 - Cash and Investments (continued)

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.

4. Other obligations including bank certificates of deposit, commercial paper, bankers' acceptance notes and money market funds shall not be subject to the 30% limitation, but rather shall be subject of the distinct requirements for each asset class set forth in the California Government Code.

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. Information about the sensitivity of the fair values of the Project's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

		Maturity Date
State investment pool (LAIF)	$16,007,189	7 months average maturity, 2.5% yield
US Government obligations	11,920,000	0.17 months average maturity
Commercial paper	6,083,946	1.13 months average maturity
Corporate obligations	3,949,932	9.8 months average maturity
Money Market	30,890	N/A - due on demand
Total	$37,991,957	

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).

Note 2 - Cash and Investments (concluded)

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).

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.

As of December 31, 2008, LAIF had approximately $63.3 billion in investments. Annual reports of the Pooled Money Investment Account (PMIA) may be obtained from the California Treasurer's web site at www.treasurer.ca.gov.

Note 3 - Power Generation Revenues and Receivables

Power generation revenues were provided by:

	2008	2007
Energy deliveries	$ 27,734,586	$ 19,861,939
Headwater Benefit to PG&E	294,717	293,400
Total	$ 28,029,303	$ 20,155,339

At December 31, 2008, power generation receivables in the amount of $1,423,142 represented revenues earned from energy deliveries and headwater benefit assessments for the month of December 2008 and certain other receivables from Pacific Gas and Electric Company.

Note 4 - Capital Assets

Capital asset activity for the year consists of the following:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Non-depreciable assets				
Land	$ 196,313	$ -	$ -	$ 196,313
Construction-in-progress	-	3,440,046	-	3,440,046
subtotals	196,313	3,440,046	-	3,636,359
Depreciable assets				
Dam and power plants	41,269,561	-	-	41,269,561
Reservoir, dam, water	989,919	-	-	989,919
Water, wheel, turbines, generators	7,250,899	-	-	7,250,899
Accessory electric equipment	1,276,005	-	-	1,276,005
Service center	259,177	-	-	259,177
Miscellaneous power plant equip.	2,149,024	-	(450,000)	1,699,024
Railroad relocation	1,082,161	-	-	1,082,161
Streamgaging station	96,446	-	-	96,446
Telemetry	2,905,435	9,343	-	2,914,778
Housing	623,140	29,775	-	652,915
Engineering costs	5,565,085	-	-	5,565,085
Office furniture and equipment	93,555	22,344	-	115,899
Transportation equipment	1,095,387	234,569	-	1,329,956
Tools, shop and garage equipment	33,512	-	-	33,512
Power operated equipment	25,370	-	-	25,370
Communication equipment	149,728	-	-	149,728
Miscellaneous equipment	502,668	103,817	-	606,485
Capitalized interest	5,163,904	-	-	5,163,904
Interest (gain) on construction invest.	(1,519,929)	-	-	(1,519,929)
subtotals	69,011,047	399,848	(450,000)	68,960,895
Accumulated depreciation	(34,486,152)	(1,006,426)	-	(35,492,578)
Total Capital Assets, net	$ 34,721,208	$ 2,833,468	$ (450,000)	$ 37,104,676

Note 5 - Construction-in-Progress

The Project expects to invest approximately $18,000,000 in feasibility, design, engineering and construction costs for the addition of a third generating unit at the Project's Tulloch Reservoir to augment the two existing units. This investment project will be financed from existing cash flows or with a combination of cash and borrowings.

Note 6 - Distributions to Districts

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

	2008	2007
Oakdale Irrigation District	$ 9,400,000	$ 10,600,000
South San Joaquin Irrigation District	9,400,000	10,600,000
Total	$ 18,800,000	$ 21,200,000

In January 2009, the Project provided cash distributions to the Districts in the amount of $8,400,000.

Note 7 - 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 2008 that exceeded applicable coverage.

Note 8 - 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 9 - Defined Benefit Pension Plan

Plan Description
All eligible full-time employees participate in the Project's defined benefit pension plan, administered through the California Public Employee's Retirement System, which provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. The California Public Employees' Retirement System (CalPERS) is an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provision as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Project selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolution (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California, 95814.

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 CalPERS. The required employer contribution rate for 2009 is estimated at 10.037%.

Note 9 - Defined Benefit Pension Plan (continued)

Annual Pension Cost
The Project's annual pension cost of $ $257,439 for 2008, and $245,253 for 2007, to CalPERS was equal to the employer's required and actual contributions. The required 2008 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 of 3.25% to 14.45% depending on age, service and type of employment, (c) an inflation rate of 3.0%, (d) a payroll growth rate of 3.25%, and (e) an individual salary growth merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.0% and an annual production growth of 0.25%.

Three-Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/06	$ 219,577	100%	$ -0-
6/30/07	$ 245,253	100%	$ -0-
6/30/08	$ 257,439	100%	$ -0-

Note 10 - Other Postretirement Employee Benefits (OPEB)

Plan Description
All eligible full-time employees participate in the Project's self-funded, self administered postretirement employee medical benefits plan. The Plan provides that the Project will continue to provide retired employees group medical coverage and that retired employees will reimburse the Project for one-half of their health insurance costs for up to ten years after retirement between the ages of 55 and 65 as long as the employee retires with at least ten years of service. At age 65 the retired employee is dropped from coverage and becomes eligible to participate in the federal government's Medicare insurance program.

Funding Policy
The Project's commitment is in accordance with a Memorandum of Understanding (MOU) with its employees and subject to change with each new MOU. The current MOU expires on February 29, 2012. Employees are not required to contribute to the plan. It is the policy of the Project to not fund the plan.

Annual Costs
The Project's annual cost was $12,399 for 2008, and $5,191 for 2007.

Actuarial Assumptions
The Project has calculated its December 31, 2008 OPEB obligation to be $938,779. Actuarial assumptions include: (1) a growth in medical insurance premium costs of 8% per year, (2) a net present value of 4%, and (3) all eligible employees will retire as soon as they achieve 10 years of service, between the age of 55 and 65.

Note 11 - Power Purchase Agreement

The Project entered into a five year power purchase agreement with Pacific Gas and Electric (PG&E) that had, as one of its provisions, an option for early termination upon notice and payment of a fee. The Project elected to terminate the agreement one year before its natural end. The Project had considered

Note 11 - Power Purchase Agreement (continued)

alternatives to PG&E owing to changes in the power market that made the existing agreement less favourable than market terms. PG&E was offered the opportunity to improve the arrangement but declined. Shell Energy North America (SENA) was chosen by the Project to market all output and agreed to pay the termination fee per the PG&E agreement. The Project entered into a five year agreement with SENA for power purchase and sales as of January 1, 2009.

Note 12 - New Pronouncements

The GASB has issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans," which provides guidance on how to report "OPEB" plans that qualify as a trust or agency funds or as fiduciary component units of either a participating employer, a plan sponsor, a public employee retirement system (PERS) or other administering entity. The requirements of this statement are effective for fiscal periods beginning after December 15, 2007, for plans in which the sole or largest employer has total annual revenues of less than $10 million (phase 3 entities).

The GASB has issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which provides guidance on all aspects of "OPEB" reporting by employers. The requirements of this statement are effective for fiscal periods beginning after December 15, 2008, for governments that were phase 3 for the implementation of GASB 34 which includes the Project.

The GASB has issued Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues." This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or collateralized borrowings. The statement also includes disclosure requirements for future revenues that are pledged or sold. The requirements of the new statement become effective for fiscal period beginning after December 15, 2006.

The GASB has issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," which provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2007.

The GASB has issued Statement No. 50, "Pension Disclosures." This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2007 except for the requirement for plans that use the aggregate actuarial cost method to present a schedule of funding progress using the entry age actuarial cost method which is effective for the actuarial valuations as of June 15, 2007.

The GASB has issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009

REQUIRED SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT
Schedule of Funding Progress
Defined Benefit Pension Plan
Year Ended December 31, 2008

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.

Miscellaneous Plan - 2% at 55	Actuarial Valuation Date - Fiscal Year Ended		
	June 30, 2007	June 30, 2006	June 30, 2005
Actuarial Accrued Liabilities (AL)	$ 2,611,746,790	$ 2,754,396,608	$ 2,891,460,651
Actuarial Value of Assets (AVA)	$ 2,391,434,447	$ 2,492,226,176	$ 2,588,713,000
Unfunded Liabilities (UL)	$ 220,312,343	$ 262,170,432	$ 302,747,651
Funded Ratio (AVA/AL)	91.6%	90.5%	89.5%
Annual Covered Payroll	$ 655,522,859	$ 699,897,835	$ 755,046,679
UL as a Percentage of Payroll	33.1%	37.5%	40.1%

Note - Details of the defined benefit pension plan can be found in Note 9 of the financial statements. Information for the fiscal year ended June 30, 2008 has not been released by the Plan Actuary.

OTHER SUPPLEMENTARY INFORMATION

TRI-DAM PROJECT
Schedule of Operations and Maintenance Expenses
Year Ended December 31, 2008

	2008	*for comparative purposes only* 2007
Donnells Facility		
Operations		
Supervision wages and benefits	$ 32,127	$ 23,279
Hydraulic wages and benefits	11,777	17,512
Electric wages and benefits	176,922	145,419
Other wages and benefits	43,095	22,604
Supplies and materials	5,325	5,036
Total Operations	269,246	213,849
Maintenance		
Supervision wages and benefits	17,435	40,249
Structures wages and benefits	26,497	13,301
Reservoirs and dams wages and benefits	70,405	26,328
Electrical plant wages and benefits	101,146	52,458
Other wages and benefits	15,332	15,309
High voltage wages and benefits	33,173	615
Communications and security wages and benefits	18,279	17,902
Supplies and materials	103,294	70,448
Total Maintenance	385,561	236,611
Total Donnells Facility	654,807	450,460
Beardsley Facility		
Operations		
Supervision wages and benefits	20,750	19,028
Hydraulic wages and benefits	22,642	17,605
Electric wages and benefits	146,601	142,114
Other wages and benefits	41,011	23,679
Supplies and materials	1,992	2,398
Total Operations	232,996	204,824
Maintenance		
Supervision wages and benefits	15,819	34,549
Structures wages and benefits	36,981	6,978
Reservoirs and dams wages and benefits	24,950	18,470
Electrical plant wages and benefits	53,366	61,097
Other wages and benefits	9,217	16,696
High voltage wages and benefits	131	261
Communications and security wages and benefits	9,394	16,286
Supplies and materials	22,081	44,850
Total Maintenance	171,939	199,187
General and Administrative		
Other wages and benefits	-	-
USFS Resource Management Support	8,126	8,344
Total General & Administrative Beardsley	8,126	8,344
Total Beardsley Facility	413,061	412,355

TRI-DAM PROJECT
Schedule of Operations and Maintenance Expenses
Year Ended December 31, 2008

	2008	*for comparative purposes only* 2007
Tulloch Facility		
Operations		
Supervision wages and benefits	$ 19,755	$ 19,028
Hydraulic wages and benefits	24,703	20,364
Electric wages and benefits	179,665	164,441
Other wages and benefits	13,529	1,886
Supplies and materials	2,673	2,886
Total Operations	240,325	208,606
Maintenance		
Supervision wages and benefits	22,592	52,380
Structures wages and benefits	71,690	7,150
Reservoirs and dams wages and benefits	22,300	23,715
Electrical plant wages and benefits	19,412	93,324
Other wages and benefits	8,836	23,380
High voltage wages and benefits	810	1,824
Communications and security wages and benefits	9,681	4,786
Supplies and materials	24,869	22,929
Total Maintenance	180,190	229,489
General and Administrative		
Headwater Benefit Assessment	90,089	92,737
Total Tulloch Facility	510,604	530,832
Goodwin Facility		
Operations		
Supervision wages and benefits	29,505	29,560
Hydraulic wages and benefits	22,726	19,660
Electric wages and benefits	92,399	89,603
Other wages and benefits	1,395	734
Supplies and materials	1,718	1,413
Total Operations	147,743	140,970
Maintenance		
Supervision wages and benefits	2,044	2,658
Structures wages and benefits	1,318	-
Reservoirs and dams wages and benefits	2,258	2,724
Other wages and benefits	1,234	-
Communications and security wages and benefits	6,105	18,799
Supplies and materials	22	887
Total Maintenance	12,981	25,068
General and Administrative		
Administrative wages and benefits	8,876	7,962
Contract Services	1,960	1,978
Property insurance	3,602	5,062
Dam safety fees	11,717	10,579
Streamgaging	53,058	47,570
Other	2,400	2,400
Total General & Administrative Goodwin	81,613	75,551
Total Goodwin Facility	242,337	241,589

TRI-DAM PROJECT

Schedule of Operations and Maintenance Expenses
Year Ended December 31, 2008

	2008	*for comparative purposes only* 2007
Mt Elizabeth Facility		
Operations		
Supplies and materials	$ 9,911	$ 9,985
Maintenance		
Supervision wages and benefits	2,571	2,099
Structures wages and benefits	532	6,115
Other wages and benefits	1,420	3,268
Communications and security wages and benefits	6,767	10,380
Supplies and materials	-	284
Total Maintenance	11,290	22,147
Total Mt. Elizabeth Facility	21,201	32,133
Strawberry Peak Facility		
Operations		
Supplies and materials	6,039	6,421
Maintenance		
Supervision wages and benefits	1,440	2,519
Structures wages and benefits	2,692	972
Other wages and benefits	2,130	1,390
Communications and security wages and benefits	8,048	12,185
Supplies and materials	15,791	-
Total Maintenance	30,101	17,066
Total Strawberry Peak	36,140	23,487
Operations Center		
Operations		
Supervision wages and benefits	22,196	19,058
Hydraulic wages and benefits	2,433	931
Electric wages and benefits	44,978	52,509
Supplies and materials	3,596	4,916
Total Operations	73,203	77,413
Maintenance		
Supervision wages and benefits	330	1,664
Structures wages and benefits	486	-
Communications and security wages and benefits	16,673	4,218
Supplies and materials	3,213	771
Total Maintenance	20,702	6,654
Total Operations Center	93,905	84,067
Service Center Facility		
Operations		
Hydraulic wages and benefits	115	-
Maintenance		
Supervision wages and benefits	934	1,255
Structures wages and benefits	1,258	-
Equipment wages and benefits	28,282	21,047
Communications and security wages and benefits	222	-
Supplies and materials	159,657	101,593
Total Maintenance	190,353	123,895
Total Service Center	190,468	123,895

TRI-DAM PROJECT
Schedule of Operations and Maintenance Expenses
Year Ended December 31, 2008

	2008	*for comparative purposes only* 2007
Division Point Facility		
Operations		
Supervision wages and benefits	$ 19,910	$ 19,288
Hydraulic wages and benefits	20,918	22,618
Electric wages and benefits	90,217	90,348
Supplies and materials	1,369	1,338
Total Operations	132,414	133,593
Maintenance		
Supervision wages and benefits	2,979	3,773
Structures wages and benefits	635	1,284
Reservoirs and dams wages and benefits	486	-
Other wages and benefits	316	1,948
Communications and security wages and benefits	3,899	15,009
Supplies and materials	609	80
Total Maintenance	8,924	22,094
Total Division Point	141,338	155,687
Total Operations & Maintenance	$ 2,303,861	$ 2,054,505

TRI-DAM PROJECT
Schedule of General and Administrative Expenses
Year Ended December 31, 2008

	2008	*for comparative purposes only* 2007
General and Administrative		
Outside services	$ 2,816,384	$1,376,359
Administrative wages and benefits	385,693	344,509
FERC license fees	284,586	282,475
Property insurance	226,338	245,606
Safety fees and expense	102,105	98,941
Other wages and benefits	59,189	55,457
Streamgaging	48,324	35,796
Office supplies and expense	38,755	39,832
Utilities	27,303	22,397
Meals allowances and travel expense	17,032	17,370
Telephone, internet, data links	15,473	21,383
Miscellaneous	13,141	15,547
Computer supplies	6,841	7,498
State Water Rights fees	2,012	-
Professional organizations	1,500	12,397
County taxes	1,314	1,133
Total General and Administrative	4,045,988	2,576,700
Depreciation and Amortization	1,070,245	1,221,283
Grand Total All Expenses	$ 7,420,094	$ 5,852,488
Recapitulation		
Operations	1,111,993	995,661
Maintenance	1,012,041	882,211
General and administrative	4,225,815	2,753,333
Total Operations, Maintenance, G&A	6,349,849	4,631,205
Depreciation and amortization	1,070,245	1,221,283
Grand Total All Expenses	$ 7,420,094	$ 5,852,488