

**TRI-DAM POWER AUTHORITY**  
***Strawberry, California***

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

**Year Ended  
December 31, 2007**

# TRI DAM POWER AUTHORITY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Tri-Dam Power Authority  
Strawberry, California

We have audited the accompanying basic financial statements of the Tri-Dam Power Authority (Authority) 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 Power Authority'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 Power Authority 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 Power Authority'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.

To the Board of Commissioners  
Tri-Dam Power Authority  
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.

*Nicholson & Olson*

Certified Public Accountants  
Roseville, California  
February 15, 2008

**TRI-DAM POWER AUTHORITY**  
**Management's Discussion And Analysis**  
**December 31, 2007**

March 28, 2008

Commissioners of the Tri-Dam Power Authority,  
Other Interested Individuals and Entities,

This letter accompanies the Tri-Dam Power Authority'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 Power Authority, 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 Commissioners of the Tri-Dam Power Authority. This annual written report is occasioned by the various requirements of the Governmental Accounting Standards Board (GASB) which Tri-Dam Power Authority has adopted.

**BACKGROUND**

Tri-Dam Power Authority was created in 1982 by, and is a joint-venture of, the *Oakdale Irrigation District* and the *South San Joaquin Irrigation District* (Districts). The five elected directors from each of the two districts comprise the ten Commissioners of the Authority. Management of the Authority is vested in the Secretary/General Manager and managers for operations, maintenance, and finance/administration. The *Tri-Dam Power Authority* and the *Tri-Dam Project* share the same management, administrative facilities, and operations and maintenance staff. The Authority reimburses the Project for the Authority's share of expenses.

The Authority is engaged in hydroelectric generation and transmission from a single power plant (Sandbar) on the Middle Fork of the Stanislaus River located in the Stanislaus National Forest, Tuolumne County, California. Electric output from the plant is sold to Pacific Gas & Electric Company (PG&E) under agreements which extend through 2016. The Authority's Sandbar plant is licensed by the Federal Energy Regulatory Commission (FERC) for 50 years through 2033. The Authority's facilities are situated on federal public lands (Stanislaus National Forest).

Operation and maintenance of the Sandbar plant, including how much water is available for hydroelectric generation, is subject to various federal and state regulations and fees. Maintenance of the plant, access ways, transmission power lines, communications facilities, and the like is subject to regulation by the FERC and the US Forest Service.

**TRI-DAM POWER AUTHORITY**  
**Management's Discussion And Analysis**  
**December 31, 2007**

**BACKGROUND - continued**

The Sandbar plant was constructed with the \$62,000,000 proceeds of a 1984 bond issue with an original interest rate of 11.375%. That debt was refunded in 1994 for \$52,055,000 at a rate of 7.25%. The remaining 1994 bonds were refunded on May 1, 2005 with a \$12,855,000 installment sales agreement payable over 12 years at 5.15% per annum interest.

**POWER REVENUE**

Electric generation is measured in kilowatts (kW). Payments are made to generators for kW "capacity," and for actual energy generated – kilowatt hours (kWh). The Authority's agreements with PG&E provide for payments for kWh generated and for "capacity." Generation for the 2007 year was approximately 50,400,000 kWh, a decrease of 67,200,000 kWh (57%) from the prior year's generation of 117,600,000 kWh.

Payments received from PG&E were \$6,024,000 of which \$3,430,000 (57%) represent energy payments and \$2,594,000 (43%) represent capacity payments. This compares with payments from PG&E during 2006 of \$9,172,000. (These amounts, like all those in this document, have been rounded and in some cases are approximations)

The 34% decrease in power revenues is a reflection of increased prices (weighted average for 2006 \$0.00582 vs. \$0.006808) and decreased generation owing to less water availability in 2007 compared to 2006.

The price paid for energy was fixed by agreement with PG&E by "season" (summer/winter) and by "time-of-day" (peak/partial-peak/off-peak/super-off-peak) for five years through July 31, 2006 after which the price paid for energy fluctuates, again, according to market conditions, season, and time-of-day.

Investment earnings for 2007 were about the same as for 2006: \$346,000 vs. \$382,000.

**EXPENSES**

The largest expense is for interest expense (\$1,309,000) on the remaining outstanding debt acquired in conjunction with the construction of the hydroelectric plant and related facilities. Interest is paid at the rate of 5.15% per annum on the installment note. Debt service (principal plus interest) is level for the 24 semi-annual payments of \$1,627,216.04 beginning November 1, 2005 and concluding January 1, 2017.

**TRI-DAM POWER AUTHORITY**  
**Management's Discussion And Analysis**  
**December 31, 2007**

**EXPENSES - continued**

*Operating expenses* for the Authority total \$1,229,000 for 2007 compared to \$1,177,000 for 2006. After **depreciation and amortization** (\$692,000), the largest expense category is for *wages and benefits* (\$311,000), followed by *insurance* (\$79,000), federal and state *fees and assessments* (\$58,000), *supplies*, parts, utilities, rentals, and miscellaneous (\$65,000), and *professional services* including legal, auditing, memberships, and trustees (\$25,000). Management expects similar expenses for 2008.

All of these expenses are for the *operation and maintenance* (O&M expenses) of the hydroelectric plant and related facilities and systems and for *general and administrative* expense of the Authority itself. Overall operating expense increased \$52,000 (about 4%) from 2006 to 2007. This is within a typical year-to-year fluctuation in expense.

**DISTRIBUTION OF EARNINGS**

Tri-Dam Power Authority's practice, policy, and the installment sale agreement permit the distribution to the Districts of 'surplus' funds in excess of that required to meet debt service obligations and related reserve requirements. Distributions are made in December pursuant to Sections 4.07 and 4.08 of the Installment Sale Agreement.

In December 2007, a distribution of \$3,000,000 was made in equal shares to the Districts. A distribution of \$5,600,000 was made to the Districts in 2006 and \$6,000,000 in 2005.

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

The assets held by the Authority are principally of the kind and in the amounts required by the installment sale agreement and agreements with PG&E and to support on-going, normal operations. Cash sufficient to meet 12 to 18 months operating needs is held in the Revenue Fund and in a pooled fund with the State of California (Local Agency Investment Fund). Other funds are invested according to the installment sales agreement requirements and the Authority's investment policy. Invested funds are principally held by Union Bank of California and LaSalle Bank National Association as custodians. Tri-Dam Project staff manages the investment of the funds.

**TRI-DAM POWER AUTHORITY**  
**Management's Discussion And Analysis**  
**December 31, 2007**

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

Net additions to 'Property, Plant, and Equipment' for 2007 were \$44,000 and were for the continuing replacement of various communications systems and security improvements. Depreciation expense in 2007 reduced the net book value of all property, plant, and equipment by \$692,000.

Total Assets declined by \$1,127,000 to \$34,417,000 (about 3%) from 2006 to 2007. Total Net Assets (equity) increased by \$832,100 (9%) in the same period. The net asset increase reflects the effect of the 2007 net income of \$3,832,000 compared to distributions in 2007 of \$3,000,000.

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

Sincerely yours,

Steve Felte  
Secretary & General Manager

Jason Reed  
Chief Financial Officer



# ***FINANCIAL STATEMENTS***

**TRI-DAM POWER AUTHORITY**  
**Statement of Net Assets**  
**December 31, 2007**  
**(With Comparative Totals at December 31, 2006)**

Page 1 of 2

	2007	2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and investments	\$ 1,077,827	\$ 544,028
Prepaid expenses	32,438	33,890
Totals	1,110,265	577,918
<b>Restricted Current Assets</b>		
Cash and investments	3,942,405	4,534,026
Accrued interest receivable	80,925	75,969
Accounts receivable - power generation	344,000	768,646
Totals	4,367,330	5,378,641
<b>Property, Plant, and Equipment</b>		
Sand Bar Flat Diversion Dam		
Hydraulic production	17,790,446	17,790,446
Conveyance tunnel	22,123,528	22,123,528
Roads and bridges	1,510,574	1,497,151
Other equipment	2,367,383	2,386,983
Construction in progress	-	13,422
Accumulated depreciation	(14,852,933)	(14,224,065)
Totals	28,938,998	29,587,465
Total Assets	\$ 34,416,593	\$ 35,544,024

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

**TRI-DAM POWER AUTHORITY**  
**Statement of Net Assets**  
**December 31, 2007**  
**(With Comparative Totals at December 31, 2006)**

Page 2 of 2

	2007	2006
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accrued interest payable	\$ 211,892	\$ 224,387
Accounts payable	20,692	3,361
Accrued expenses	50,000	50,000
Accounts payable - Tri-Dam Project	4,475	36,146
Current portion of long-term debt	2,033,490	1,932,676
Totals	2,320,549	2,246,570
<b>Long-Term Liabilities</b>		
Note payable	24,209,520	26,142,196
Less: Current portion shown above	(2,033,490)	(1,932,676)
Totals	22,176,030	24,209,520
Total Liabilities	24,496,579	26,456,090
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	4,729,478	3,445,269
Restricted	833,466	1,569,957
Unrestricted	4,357,070	4,072,708
Total Net Assets	\$ 9,920,014	\$ 9,087,934

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

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

	2007	2006
<b>Operating Revenues</b>		
Power generation revenues	\$ 6,024,133	\$ 9,171,785
Other revenues	41	412
Totals	6,024,174	9,172,197
<b>Operating Expenses</b>		
Operations	221,941	233,292
Maintenance	113,669	71,683
Administrative and general	200,804	182,167
Depreciation	692,457	690,104
Totals	1,228,871	1,177,246
<b>Operating Income</b>	4,795,303	7,994,951
<b>Nonoperating Revenues (Expenses)</b>		
Investment earnings	346,038	381,665
Interest expense	(1,309,261)	(1,396,670)
Totals	(963,223)	(1,015,005)
<b>Net Income</b>	3,832,080	6,979,946
<b>Net Assets - Beginning of Year</b>	9,087,934	7,707,988
<b>Less: Distributions to Districts</b>	(3,000,000)	(5,600,000)
<b>Net Assets - End of Year</b>	\$ 9,920,014	\$ 9,087,934

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

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

Page 1 of 2

<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	\$ 6,448,779	\$ 8,895,772
Other operating receipts	41	412
Cash payments to suppliers for goods and services	<u>(549,300)</u>	<u>(526,641)</u>
Net Cash Provided (Used)	<u>5,899,520</u>	<u>8,369,543</u>
<b>Noncapital Financing Activities</b>		
Cash distribution to Districts	<u>(3,000,000)</u>	<u>(5,600,000)</u>
Net Cash Provided (Used)	<u>(3,000,000)</u>	<u>(5,600,000)</u>
<b>Capital and Related Financing Activities</b>		
Interest paid on long-term debt	(1,321,756)	(1,417,572)
Retirement of bond debt and call premium payment		
Proceeds from new loan for bond refunding		
Repayment of principal against new loan	(1,932,676)	(1,836,860)
Purchase of capital assets	<u>(43,990)</u>	<u>(42,497)</u>
Net Cash Provided (Used)	<u>(3,298,422)</u>	<u>(3,296,929)</u>
<b>Investing Activities</b>		
Sale of investments	-	-
Investment earnings	<u>341,080</u>	<u>359,302</u>
Net Cash Provided (Used)	<u>341,080</u>	<u>359,302</u>
<b>Net Change in Cash and Cash Equivalents</b>	(57,822)	(168,084)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>5,078,054</u>	<u>5,246,138</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 5,020,232</u>	<u>\$ 5,078,054</u>
<b>Reconciliation of Cash and Cash Equivalents to Statement of Net Assets</b>		
Cash and Cash Equivalents	\$ 1,077,827	\$ 544,028
Restricted Cash and Cash Equivalents	3,942,405	4,534,026
Totals	<u>\$ 5,020,232</u>	<u>\$ 5,078,054</u>

The accompanying notes are an integral part of these financial statements

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

Page 2 of 2

	2007	2006
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating Income	\$ 4,795,303	\$ 7,994,951
Adjustments to reconcile operating income to net cash provided by operating activities:		
Add Depreciation, a noncash expense	692,457	690,104
Change in assets:		
Decrease (increase) in power generation receivable	424,646	(276,013)
Decrease (increase) in prepaid expenses	1,452	3,721
Change in liabilities:		
Increase (decrease) in accounts payable	17,333	(10,422)
Increase (decrease) in accrued expenses	-	(2,368)
Increase (decrease) in accounts payable - Tri-Dam Project	(31,671)	(30,430)
	\$ 5,899,520	\$ 8,369,543

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

**TRI-DAM POWER AUTHORITY**  
**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 Authority as follows:

- Note 1 - Summary of Significant Accounting Policies
- Note 2 - Cash and Investments
- Note 3 - Power Generation Revenues and Receivables
- Note 4 - Risk Management
- Note 5 - Sand Bar Project 1994 Hydroelectric Revenue Bonds
- Note 6 - Contingencies
- Note 7 - Compliance with Installment Sale Agreement

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

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

**A. Reporting Entity**

The Tri-Dam Power Authority (Authority) was formed as a separate entity under a Joint Exercise of Powers Agreement dated October 14, 1982, between the Oakdale Irrigation District and the South San Joaquin Irrigation District (Districts). The Authority is governed by all five elected directors of the Oakdale Irrigation District and by all five elected directors of the South San Joaquin Irrigation District; all members of the Board of Commissioners are also members of the Board of Directors of the Tri-Dam Project. In 1984, the Authority issued Revenue Bonds to provide financing to acquire and construct one hydraulic turbine and generator to be installed in the vicinity of the Sand Bar Flat Diversion Dam, together with a related diversion facility, conveyance tunnel, transmission line, and necessary access roads, bridges, land, and necessary improvements.

The Authority has no employees and shares the facilities of the Tri-Dam Project. While the Authority is in substance governed by the same elected officials controlling the Tri-Dam Project, it is a separate financial reporting entity. The debts and obligations of the Authority are payable solely from the net revenues and other specified funds of the Authority. Accordingly, the accompanying financial statements exclude the assets, liabilities, net assets, revenues, expenses, and other financial data of the Tri-Dam Project.

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

The accounts of the Authority are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The funds maintained by the Authority are required primarily by the Installment Sale Agreement entered into on May 1, 2007 for the purpose of redeeming the Authority's 1994 Hydroelectric Refunding Revenue Bonds.

The funds of the Authority are combined into one financial reporting entity to enable the Authority to report its financial activity as a governmental proprietary enterprise fund. Proprietary enterprise funds are accounted for on the flow of economic-resources-measurement-focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.



**TRI-DAM POWER AUTHORITY**  
**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)**

The Authority 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.

In the accompanying financial statements, the Authority has eliminated transfers between its various funds and any interfund payables or receivables.

The Authority maintains the following funds:

*Revenue Fund.* All revenues received by the Authority are to be deposited initially into this fund. After December 1<sup>st</sup> of each year during the term of the installment sale agreement, but not later than December 31<sup>st</sup> of that year, if the Authority has made the deposits from the Revenue Fund into the Maintenance and Operation Fund, the Replacement Reserve Fund and the Debt Service Fund to the extent required by the installment sale agreement and has paid its installment payments that are due and payable during the calendar year in which such deposits are made, Revenues then held in the Revenue Fund may be withdrawn by the Authority and used for any lawful purposes of the Authority.

In addition to the revenue fund the Installment Sale Agreement establishes the following funds and accounts.

1. Maintenance and operation fund,
2. Replacement reserve fund,
3. Debt service reserve fund,

All revenues are required to be deposited in the revenue fund and are to be set aside by the Authority, during the term of the Installment Sale Agreement, at the following times in the following respective funds in the following order of priority.

*Maintenance and Operations Fund.* On or before the first day of each December, the Authority shall, from the money in the revenue fund, deposit in the maintenance and operations fund a sum equal to the amount required by the Authority for the payment of budgeted maintenance and operations costs for the next succeeding year.

**TRI-DAM POWER AUTHORITY**  
**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 and Operations Fund. (continued)*

All money in the maintenance and operations fund shall be used and withdrawn by the Authority solely for the purpose of paying the maintenance and operations costs as they become due and payable.

*Replacement Reserve Fund.* On or before the first day of each December, the Authority shall, from the remaining money in the revenue fund, transfer to the replacement reserve fund a sum of money to increase or restore the fund balance therein to the "replacement reserve amount". The "replacement reserve amount" means, that for any year \$650,000 multiplied by the percentage increase in such year of the "Consumer Price Index for All Urban Consumers (CPI-U" and specifically for the "Selected local area: San Francisco-Oakland-San Jose, CA", over such index for the prior year. If at any time the fund balance in the replacement reserve fund exceeds the replacement reserve amount and if the Authority is not then in default under the installment sale agreement, the Authority shall withdraw the amount of such excess from such fund and shall deposit such excess in the revenue fund. Except for such withdrawals, all money in the replacement reserve fund shall be used and withdrawn by the Authority solely for the purpose of paying the replacement costs as they become due and payable.

*Debt Service Reserve Fund.* On or before the first day of each December, the Authority shall, from the remaining money in the revenue fund, deposit in the debt service reserve fund a sum of money sufficient to restore the fund balance therein to the debt service reserve amount (\$2,885,000) provided that no deposit need be made if the fund balance contained therein is at least equal to the debt service reserve amount. If at any time the fund balance contained in the debt service reserve fund exceeds the debt service reserve amount and if the Authority is not then in default under the installment sale agreement, the Authority may authorize the transfer of such excess to the revenue fund. Except for such transfers, all money in the debt service reserve fund shall be used and withdrawn solely for the purpose of paying principal or interest under the installment sale agreement.

**C. Assets, Liabilities, and Net Assets**

**1. Deposits and Investments**

The Authority'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), and short-term investments with original maturities of three months or less from the date of acquisition.

**TRI-DAM POWER AUTHORITY**  
**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)*

Trading securities are debt securities bought and held principally for the purpose of selling them in the near future. Such debt securities include, among other items, U.S. Treasury securities, U.S. Government Agency securities, municipal securities, corporate bonds, commercial paper, and interest-only and principal-only strips. Such investments are carried at fair value, with unrealized gains and losses included in earnings of the Authority.

The Authority, pursuant to its investment policy and the installment sale agreement, is authorized to invest in (a) US Treasury notes, bonds, bills, or certificates of indebtedness; (b) Federal agency or US government-sponsored enterprise obligations; (c) Bankers acceptances with the highest ratings, but not to exceed 180 days maturity; (d) commercial paper of "prime" quality with the highest rating; (e) non-negotiable certificates of deposited that are fully collateralized; and (f) certain other permitted investments.

2. *Receivables*

Trade accounts receivable are carried at net realizable values. The Authority records power generation receivables for energy deliveries to Pacific Gas and Electric Company (PG&E) and capacity payments due from PG&E for energy deliveries made during the year, but unpaid at December 31, 2007

3. *Prepayments*

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

4. *Restricted Assets*

Certain proceeds of the Authority's installment sale contract, as well as certain resources set aside for repayment of the installment sale note, are classified as restricted assets on the balance sheet because their use is limited by the installment sale agreement.

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

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

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

5. *Capital Assets*

Property, plant, and equipment are stated at historical cost. Historical cost includes interest expense capitalized during construction net of applicable earnings. During the current period, there was no capitalized interest. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

6. *Net Assets*

Cash distributions made by the Authority to the Oakdale Irrigation District and the South San Joaquin Irrigation District are recorded as charges against net assets.

D. Power Generation Revenues

**Power Purchase Agreement:** Power revenues are recognized pursuant to the terms and provisions of a Power Purchase Agreement with PG&E referred to as PG&E Standard Offer Number 4, dated June 14, 1994 (Agreement).

Under the Agreement, which expires January 1, 2017, PG&E is to make monthly payments to the Tri-Dam Power Authority for energy and capacity delivered to PG&E during on-peak, partial-peak, and off-peak periods. The Authority is to be paid for energy deliveries at prices equal to PG&E's full short-run avoided operating costs, which are California Public Utility Commission-approved costs forming the basis of PG&E's published energy prices. On July 31, 2001, the Authority entered into an agreement with PG&E accepting a 5 year fixed energy price option of 5.37 cents per kWh, seasonally and time-of-use adjusted.

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

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

**D. Power Generation Revenues (continued)**

Under the Agreement, the Authority is also to be paid for firm capacity of 15,000 kWh. To receive firm capacity payments, the firm capacity is to be delivered for all of the on-peak hours in PG&E's peak months of June, July, and August, as specified in the Agreement. Monthly firm capacity payments are based upon formulas established in the Agreement. In the event the Authority does not provide the contract capacity, the capacity payments are to be readjusted for the actual amount delivered to PG&E, which may require the Authority to reimburse PG&E for any prior overpayment.

The Agreement was amended in 1995 to amend Article 4, "Energy Price", Appendix E, "Firm Capacity", and to add certain operating limitations to the Agreement in order to resolve a longstanding dispute regarding the amount of firm capacity to which the Authority was entitled to under 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 from the Tri-Dam Project for operations, maintenance and administrative support expenses are incurred in the normal course of business, and for 2007 was approximately \$400,000.

**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.

**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 Authority's financial position, operations, and cash flows.

**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.

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

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

H. Net Assets (continued)

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 Authority 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 investments - current assets	\$ 1,077,827
Cash and investments - restricted current assets	<u>3,942,405</u>
Total cash and investments	<u>\$ 5,020,232</u>

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

Deposits with financial institutions in:	
• Money market accounts	\$ 54,132
• Checking accounts	741
• Certificates of Deposits	2,300,000
Investment in Local Agency Investment Fund (LAIF)	1,077,086
Investment in US Government obligations	<u>1,588,273</u>
Total cash and investments	<u>\$ 5,020,232</u>

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

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

Investments Authorized by the Authority's Investment Policy

The Authority's management is given discretion to invest funds for the benefit of Tri-Dam Power Authority. All funds invested are managed to meet the guidelines stated in both California Code Section 53600, et. seq. and the Authority'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.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by a bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury obligations	None
U.S. Agency Securities	None
Banker's Acceptances	180 days
Commercial Paper	270 days
Money Market Mutual Funds	N/A
Investment Contracts	30 years

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

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

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:

		<u>Maturity Date</u>
State investment pool (LAIF)	\$ 1,077,086	10.5 months average maturity
US Government obligations	1,588,273	17.4 months average maturity
Certificates of Deposit	2,300,000	9.3 months average maturity
Money Market	<u>54,132</u>	N/A
Total	<u>\$ 5,019,491</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 Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.



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

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

Custodial Credit Risk (continued)

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 Authority'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 Authority 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 Authority 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 Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority'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 - Power Generation Revenues and Receivables**

Power generation revenues were provided by:

<u>Category</u>	<u>2007</u>	<u>2006</u>
Energy deliveries	\$ 3,429,133	\$ 6,563,213
Capacity payments	2,595,000	2,608,572
Total	<u>\$ 6,024,133</u>	<u>\$ 9,171,785</u>

At December 31, 2007, power generation receivables in the amount of \$344,000 represented revenues earned from energy deliveries and capacity for the month of December 2007.

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

***Note 4 - Risk Management***

The Authority 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 Authority, through the Tri-Dam 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, jointly with Tri-Dam Power Authority, \$1 million general liability for all owned vehicles. There were no settlements in 2007 that exceeded applicable coverages.

***Note 5 - Sand Bar Project 1994 Hydroelectric Revenue Bonds***

On July 1, 1994, the Tri-Dam Power Authority issued Refunding Revenue Bonds of \$52,055,000 with an interest rate of 7.50 percent. These Bonds were refunded in 2006 with a bank, which provided for an interest rate reduction from 7.5% to 5.15%. The Authority paid down the principal balance \$9.5 million in 2006 and expects to save \$3,069,266 through refunding of these bonds.

Commercial Loan

Note Payable - Authorized and issued May 2006, due in semi-annual installments of \$1,627,216 principal and interest, through January 2017, for the purpose of refunding the Authority's Sand Bar Project 1994 Hydroelectric Revenue Bonds.

*Balance due* \$ 24,209,520

Scheduled Payments

Annual principal and interest requirements are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,033,490	\$ 1,220,942	\$ 3,254,432
2009	2,139,563	1,114,869	3,254,432
2010	2,251,169	1,003,263	3,254,432
2011	2,368,597	885,835	3,254,432
2012	2,492,151	762,281	3,254,432
2013-2016	11,338,183	1,679,546	13,017,729
2017	<u>1,586,367</u>	<u>13,843</u>	<u>1,600,210</u>
Totals	<u>\$ 24,209,520</u>	<u>\$ 6,680,579</u>	<u>\$ 30,890,099</u>

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

**Note 5 - Sand Bar Project 1994 Hydroelectric Revenue Bonds (continued)**

Changes in Long-Term Liabilities

Long-term debt activity for the fiscal year was as follows:

<u>Commercial Loan</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>	<u>Due Within One Year</u>
Note Payable	\$ 26,142,196	\$ _____ -	\$ 1,932,676	\$ 24,209,520	\$ 2,033,490

**Note 6 - 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 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 that Agreement was 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 Authority is uncertain.

*Tax Compliance.* The Authority's 1984 and 1994 Revenue Bonds have been retired; however, there were some interpretations and estimates made in regard to that Bond Issue's compliance with certain Federal tax laws and the handling of Bond proceeds by the Authority. The treatment of such Bond proceeds by the Authority was in accordance with the directions of the Authority's Bond Counsel; however no approval of this treatment by the Internal Revenue Service (IRS) has been requested or received in regard to the final disposition of this matter. The potential impact of any adverse finding by the IRS, should any be made, is unknown at the present time.

In 2005 the Authority advance refunded its 1994 Revenue Bonds in order to take advantage of lower interest rates and significantly reduce its annual debt service. The Authority believes that with at least average precipitation and energy prices of at least 30 mills per kWh, that adequate revenues will be generated to meet debt service. The Bond reserves provide a financial cushion during low water years and/or periods of lower energy prices.

**Note 7 - Compliance with Installment Sale Agreement**

At December 31, 2007, the Authority was in substantial compliance with the fund transfer requirements specified in the installment sale agreement.

## ***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 Commissioners  
Tri-Dam Power Authority  
Strawberry, California

We have audited the basic financial statements of the Tri-Dam Power Authority (Authority) as of and for the year ended December 31, 2007, which collectively comprise the Authority'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 Authority'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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance 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 Commissioners, 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