

Comparative Statistics

(In thousands of dollars)	2007	2006	2005	2004	2003
Electric Revenues					
Retail Revenues					
Residential	\$110,603	\$111,989	\$99,938	\$89,767	\$82,272
Commercial	77,498	76,020	67,857	62,520	55,736
Industrial	56,724	52,706	47,606	41,694	37,806
Other	10,896	9,842	9,126	8,398	7,813
Total Retail Revenue	255,721	250,557	224,527	202,379	183,627
Wholesale Revenue	20,815	28,380	40,867	29,851	20,757
Total Electric Revenue	<u>\$276,536</u>	<u>\$278,937</u>	<u>\$265,394</u>	<u>\$232,230</u>	<u>\$204,384</u>
Electric kWh Sales (000) ⁽¹⁾					
Retail kWh					
Residential	881,087	914,665	875,238	861,273	847,031
Commercial	757,247	754,447	735,351	725,387	697,419
Industrial	819,968	801,578	792,027	766,018	741,435
Other	107,704	94,540	105,156	106,910	107,968
Total Retail Sales	2,566,006	2,565,230	2,507,772	2,459,588	2,393,853
Wholesale Sales	452,307	1,050,037	744,538	526,572	505,733
Total Electric Sales	<u>3,018,313</u>	<u>3,615,267</u>	<u>3,252,310</u>	<u>2,986,160</u>	<u>2,899,586</u>
Retail Customers At Year End					
Residential	91,277	90,660	91,061	88,741	86,650
Commercial	12,477	12,341	11,682	11,319	10,995
Industrial	215	215	173	155	150
Other	6,726	6,187	5,608	5,488	5,428
Total Retail Customers	<u>110,695</u>	<u>109,403</u>	<u>108,524</u>	<u>105,703</u>	<u>103,223</u>
Retail Revenue Per kWh Sold (cents)					
Residential	12.6	12.2	11.4	10.4	9.7
Commercial	10.2	10.1	9.2	8.6	8.0
Industrial	6.9	6.6	6.0	5.4	5.1
Other	10.1	10.4	8.7	7.9	7.2
System Average	10.0	9.8	9.0	8.2	7.7
Wholesale Revenue Per kWh Sold (cents)	4.6	2.7	5.5	5.7	4.1
Financial Ratios					
Operating Ratio	0.87	0.80	0.81	0.88	0.96
Current Ratio	1.17	1.62	1.10	1.27	0.85
Quick Ratio	0.72	1.14	0.69	0.91	0.48
Debt Service Coverage - Sr. Lien Debt ⁽¹⁾	-	7.35	4.91	3.44	1.81
Debt Service Coverage - Jr. Lien Debt	1.49	2.31	1.91	1.55	1.50
Power Supply (GWh)					
Power Purchased	2,485.9	3,008.3	2,638.5	2,594.6	2,537.5
Power Generated	551.8	755.4	674.2	459.2	475.5
Total System Requirements	<u>3,037.7</u>	<u>3,763.7</u>	<u>3,312.7</u>	<u>3,053.8</u>	<u>3,013.0</u>
Annual System Peak Load (MWh)					
	675.2	697.3	632.5	606.4	624.2

⁽¹⁾ MID no longer has any outstanding Senior Lien Debt.

(kWh=Kilowatthours; MWh=Megawatthours; GWh=Gigawatthours)

Long Term Debt Summary

(In Thousands Of Dollars)	2007	2006	2005	2004	2003
Outstanding Debt At Year End					
Modesto Irrigation District Debt					
<i>Electric Debt</i>					
1967 Don Pedro G. O. Bonds	\$ -	\$ -	\$ -	\$985	\$1,930
1996A Geysers Refunding Revenue Bonds	-	-	87,060	93,445	99,520
1999A Certificates of Participation	45,028	47,222	49,523	51,936	55,656
1999B Certificates of Participation	39,580	41,285	42,900	44,440	45,895
2001A Certificates of Participation	89,245	91,245	93,180	95,050	96,855
2003A Certificates of Participation	85,095	87,330	89,515	91,650	93,225
2004A Certificates of Participation	50,000	50,000	50,000	50,000	
2004B Certificates of Participation	66,025	66,025	66,025	66,025	
2006A Certificates of Participation	139,490	146,960			
	\$514,463	\$530,067	\$478,203	\$493,531	\$393,081
<i>Domestic Water Debt</i>					
1998 D Refunding Revenue Bonds - Domestic Water	70,690	73,780	76,710	79,490	82,145
2007 F Revenue Bonds - Domestic Water	93,190				
	\$163,880	\$73,780	\$76,710	\$79,490	\$82,145
Total Outstanding MID Debt	\$678,343	\$603,847	\$554,913	\$573,021	\$475,226
MID Share Of Joint Power Agency Debt					
<i>MSR Public Power Agency - 50%</i>					
1993 Series F Refunding San Juan A Bonds	10,205	10,205	10,205	10,205	10,205
1997 Series G Refunding San Juan C Bonds	-	27,560	28,263	28,810	29,333
1997 Series H Refunding San Juan D Bonds	-	-	-	-	40,860
2001 Series I Refunding San Juan E Bonds	26,620	28,743	30,783	32,115	32,115
1995 Series B Refunding San Juan B Bonds	8,750	8,750	8,750	8,750	8,750
1995 Series C Refunding San Juan B Bonds	-	-	-	-	1,900
1997 Series D Refunding San Juan C Bonds	32,500	32,500	32,500	32,500	32,500
1997 Series E Refunding San Juan C Bonds	32,500	32,500	32,500	32,500	32,500
1998 Series F Refunding San Juan A&C Bonds	31,250	31,250	31,250	31,250	31,250
1998 Series G Refunding San Juan A&C Bonds	8,500	8,500	8,500	8,500	8,500
2003 Series I Refunding San Juan F Bonds	19,447	21,513	23,490	25,380	27,188
2004 Series J Refunding San Juan F Bonds	12,513	16,110	19,633	23,095	
2007 Series K Refunding San Juan G Bonds	24,152				
	\$206,437	\$217,631	\$225,874	\$233,105	\$255,101
<i>Transmission Agency Of Northern California - 21.12%</i>					
1990 Series A Revenue Bonds	\$6,011	\$6,011	\$6,011	\$6,470	\$6,966
1993 Series A Revenue Bonds	5,817	7,574	9,243	9,564	9,870
2002 Series A Revenue Refunding Bonds	19,060	19,702	20,307	20,879	21,419
2003 Series A & B Revenue Refunding Bonds	39,558	39,758	39,954	40,143	40,329
2003 Series C Revenue Refunding Bonds	8,052	8,400	8,733	9,055	9,361
Commercial Paper	9,841	7,307	7,307	7,307	6,839
	\$88,339	\$88,752	\$91,555	\$93,418	\$94,784
Total MID Share Of JPA Debt	\$294,776	\$306,383	\$317,429	\$326,523	\$349,885
Total Outstanding MID & JPA Debt	\$973,119	\$910,230	\$872,342	\$899,544	\$825,111

Independent Auditors' Report

To the Members of the Board of Directors of Modesto Irrigation District Modesto, California

We have audited the accompanying consolidated balance sheet of the Modesto Irrigation District and its component unit (the District) as of December 31, 2007 and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

As discussed in Note 2, the District consists of both enterprise funds, as reported in these consolidated financial statements, and fiduciary funds, which are excluded from these financial statements. Such fiduciary funds comprise pension plans and other postemployment benefit plans disclosed in Note 8 which are managed for the benefit of the District's employees, retirees and related beneficiaries. Because of the exclusion of these fiduciary funds, the accompanying consolidated financial statements do not purport to, and do not, present fairly the financial position of the District, as a whole inclusive of the fiduciary funds, as of December 31, 2007, or the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows present fairly, in all material respects, the financial position of the enterprise funds of the District as of December 31, 2007 and the change in their financial position and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the District adopted the provisions of GASB 45, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, effective January 1, 2007.

The management's discussion and analysis and budgetary comparison information on pages 16 through 18 is not a required part of the consolidated 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.

Virchow, Krause & Company, LLP

Madison, Wisconsin
May 9, 2008

Management's Discussion and Analysis

Years Ended December 31, 2007 and 2006

Overview

The following management discussion and analysis of Modesto Irrigation District (the District) provides an overview of the financial activities and transactions for fiscal year 2007 in the context of the requirements of the Statement of Governmental Accounting Standards (SGAS) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended. This discussion and analysis should be read in conjunction with the District's audited financial statements and accompanying notes.

Financial Reporting

The District's accounting records are maintained in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board.

Explanation of Financial Statements

District financial statements include a consolidated balance sheet, statement of revenues, expenses and changes in net assets and a statement of cash flows. The balance sheet provides information about assets and obligations of the District at a specific point in time. The statement of revenues, expenses and changes in net assets provides information regarding the District's operations during the fiscal year. The statement of cash flows reports cash sources and cash uses for operations, capital financing and investing activities.

Financial Summary

(\$ in millions)

	December 31, 2007	December 31, 2006	Change
Assets			
Utility plant, net	\$558.1	\$527.9	\$30.2
Other noncurrent assets and investments	279.8	247.5	32.3
Current assets	83.7	71.1	12.6
Total Assets	\$921.6	\$846.5	\$75.1
Liabilities and Net Assets			
Long-term debt	\$668.3	\$594.0	\$74.3
Current liabilities	71.4	58.6	12.8
Noncurrent liabilities	117.3	128.0	(10.7)
Net assets			
Invested in capital assets, net	16.0	18.0	(2.0)
Restricted	6.5	0.1	6.4
Unrestricted	42.1	47.8	(5.7)
Total Liabilities and Net Assets	\$921.6	\$846.5	\$75.1
Revenues, Expenses and Changes in Net Assets			
Operating revenues	\$316.6	\$306.6	\$10.0
Operating expenses	(303.9)	(270.9)	(33.0)
Operating income (loss)	12.7	35.7	(23.0)
Investment and other income	11.7	8.1	3.6
Interest expense	(27.3)	(25.3)	(2.0)
Other non-operating income, net	2.3	8.0	(5.7)
Change in net assets	(0.6)	26.5	(27.1)
Net assets, beginning of year	66.0	39.5	26.5
Restatement	(0.8)		(0.8)
Net assets, beginning of year, as adjusted	65.2	39.5	25.7
Net Assets, End of Year	\$64.6	\$66.0	\$(1.4)

Assets

Utility plant

Utility plant increased by a net of \$30.2 million in 2007. Utility plant additions of \$58.3 million were primarily the result of continued construction work on the Westley Rosemore Transmission Line and associated substations, and the Domestic Water Treatment Plant Phase II expansion. The increase is partially offset by depreciation expense of \$28.0 million.

Additionally, in 2007, construction of new distribution system infrastructure continued as the District installed new meters and continued construction on new substations. The District also continued to build infrastructure in the Mountain House area of the District's service territory, acquired in 1998.

Other non-current assets and investments

Other non-current assets and investments increased by \$32.3 million in 2007. The increase is primarily due to an increase in investments as a result of issuing the 2007F Domestic Water Revenue Bonds.

Current assets

Current assets increased in 2007 by \$12.6 million. The increase was attributable to a \$9.5 million increase in cash and cash equivalents as a result of the issuance of the Series 2007F Domestic Water Revenue Bonds. Receivables and other current assets increased a net \$3.1 million.

Liabilities and Net Assets

Long-term debt

Long-term debt increased by \$74.3 million in 2007. This increase was primarily due to the issuance of \$93.2 million in Series 2007F Domestic Water Revenue Bonds. This increase was offset by \$19.6 million normal debt service payments.

Current liabilities

Current liabilities increased by \$12.8 million in 2007. The increase is primarily due to an increase in construction accounts payable resulting from large projects such as the Westley Rosemore Transmission Line and Substations, and the Domestic Water Treatment Plant Phase II expansion.

Non-current liabilities

Non-current liabilities decreased \$10.7 million in 2007. This decrease is due primarily to a \$9.5 million net change in the District's investment in other joint power agencies, a \$7.2 million decrease in unearned revenue and other liabilities, and a \$6.0 million increase in derivative financial instruments with maturities greater than one year and other non-current liabilities.

Net assets

In 2007, the District's net assets invested in capital assets decreased by \$2.0 million. A \$46.1 million decrease in capital assets net of related debt is primarily the result of the issuance of the Series 2007F Domestic Water Revenue Bonds. This decrease is offset by the \$44.1 million change in reserve funds resulting from the Series 2007F Domestic Water Revenue Bonds and the continued construction of financed capital electric distribution projects.

Restricted net assets increased in 2007 by \$6.4 million. The increase was due to a \$50.9 million increase in reserve funds, primarily offset by a \$43.5 million decrease in debt service funds and unspent bond proceeds.

Unrestricted net assets changed primarily as a result of the changes above and the overall change in net assets resulting from a net loss in 2007.

Changes in Net Assets

Operating revenues

Retail electric revenue in 2007 increased by \$7.0 million or approximately 2.7%. The District implemented a 2.8% electric revenue increase effective January 1, 2007. Electric retail consumption remained relatively flat in 2007 as the District's service territory experienced fewer housing starts and cooler weather which contributed to a smaller than anticipated revenue increase.

Wholesale electric revenue decreased by \$8.5 million. The decrease was due to a critical dry water year which resulted in less excess power available to sell on the wholesale market.

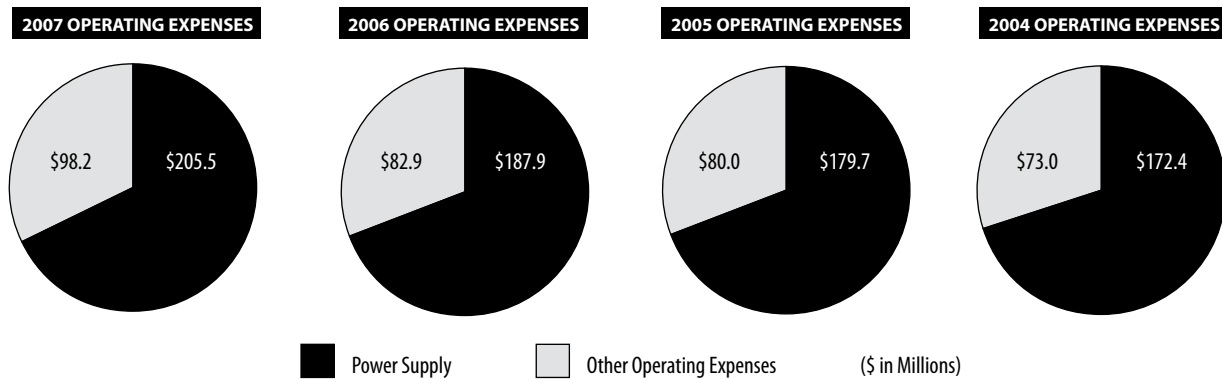
Water revenues from agricultural water remained relatively constant with revenues from prior years. Domestic wholesale water revenue increased by \$8.3 million. This was a result of accounting for the year end unrealized change in the valuation of the 2007F Domestic Water Revenue Bonds interest rate swap, which is passed through to the City of Modesto.

Other operating income increased \$2.7 million in 2007. The increase is due primarily to an increase in net income from MSR Public Power Agency (the Agency) of \$1.2 million and a \$0.7 million increase in net income from TANC.

Operating expenses

Purchased power and power generation costs for 2007 increased by \$17.7 million. The increase was due to a \$14.0 million increase in purchased power costs and a \$3.7 million increase in power generation expenses. Purchased power costs were reduced in 2006 primarily due to a \$15.6 million purchased power litigation settlement. The District's power generation cost increase was due to increased generation at the Woodland generation station which had reduced generation in 2006 due to planned maintenance.

Other operating expenses increased by \$15.3 million in 2007. The increase is primarily the result of an unrealized loss on the interest rate swap for the 2007F Domestic Water Revenue Bonds of \$7.5 million, charged back to the City of Modesto, increased post-retirement benefit costs from implementing GASB 45, and increased depreciation expense for the Ripon Generation Station of \$2.2 million which had only one half year of commercial operation in 2006.



Investment and other income

Investment and other income decreased in 2007 by \$2.1 million. The District received several legal settlements in 2006 resulting in a higher level of other income for the year. The decrease was partially offset by increases in interest income and unrealized gains on investments in 2007 which were the result of higher interest rates in 2007.

Interest expense

Interest expense for 2007 increased \$2.0 million primarily as a result of a full year's interest expense for the Series 2006A COPs.

Rate Adjustment

The District increased rates effective January 1, 2008 and May 1, 2008.

Consolidated Balance Sheet

December 31, 2007

(Dollars in Thousands)

ASSETS

Capital Assets

Plant in service	\$842,243
Less accumulated depreciation	<u>(332,912)</u>
Plant in service - net	509,331
Construction work in progress	<u>48,778</u>
Total Capital Assets	<u>558,109</u>

Other Assets and Investments

Cash and investments - restricted	130,301
Investments - unrestricted	138,616
Unamortized debt issuance costs	7,807
Derivative financial instruments	2,572
Equity interest in TANC	<u>512</u>
Total Other Assets and Investments	<u>279,808</u>

Current Assets

Cash and cash equivalents - unrestricted	9,628
Cash and cash equivalents - restricted	16,630
Interest receivable	2,983
Customer accounts receivable, net	31,940
Wholesale power receivables, net	2,626
Materials and supplies	10,162
Prepayments	2,280
Derivative financial instruments maturing within one year	251
Other current assets	<u>7,210</u>
Total Current Assets	<u>83,710</u>

TOTAL ASSETS

\$921,627

LIABILITIES AND NET ASSETS

Net Assets

Invested in capital assets, net of related debt	\$15,986
Restricted	6,487
Unrestricted	<u>42,081</u>
Total Net Assets	<u>64,554</u>

Noncurrent Liabilities

Long-term debt, net of current portion	668,322
Unamortized premium	8,135
Unamortized debt discount	(2,938)
Unamortized loss on advance refunding	(14,625)
Unearned revenue and other liabilities	24,000
Derivative financial instruments	7,619
Equity interest in M-S-R	<u>95,131</u>
Total Noncurrent Liabilities	<u>785,644</u>

Current Liabilities

Accounts payable and other accruals	38,903
Current liabilities payable from restricted assets	
Current portion of long-term debt	20,315
Interest payable	11,165
Derivative financial instruments maturing within one year	<u>1,046</u>
Total Current Liabilities	<u>71,429</u>

TOTAL LIABILITIES AND NET ASSETS

\$921,627

See accompanying notes to consolidated financial statements.

Consolidated Statement of Revenues, Expenses and Changes in Net Assets

Year Ended December 31, 2007

(Dollars in Thousands)

OPERATING REVENUES

Residential, commercial and industrial electric	\$255,899
Wholesale electric	20,815
Domestic water	19,571
Irrigation water	3,667
Equity in net income of public power agencies	10,339
Other operating income, net	6,360
Total Operating Revenues	<u>316,651</u>

OPERATING EXPENSES

Purchased power	162,403
Power generation	43,141
Electric resources	7,106
Electric transmission and distribution	12,617
Irrigation operations	7,561
Domestic water operations	5,208
Customer account service	4,855
Administrative and general	33,029
Depreciation and amortization	28,008
Total Operating Expenses	<u>303,928</u>

Total Operating Income 12,723

OTHER INCOME (EXPENSE)

Net investment income	11,717
Interest expense	(27,307)
Amortization of debt discount and issuance costs	(707)
Amortization of premium	963
Amortization of loss on refunding	(2,171)
Other non-operating income, net	2,746
Total Other Income (Expense)	<u>(14,759)</u>

Net (Loss) Before Contributions (2,036)

CAPITAL CONTRIBUTIONS 1,433

CHANGE IN NET ASSETS (603)

NET ASSETS - Beginning of Year (As Restated) 65,157

NET ASSETS - END OF YEAR \$64,554

See accompanying notes to consolidated financial statements.

Consolidated Statement Of Cash Flows

Year Ended December 31, 2007

(Dollars in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from electric customers	\$307,441
Payments to suppliers for goods and services	(239,427)
Payments to employees for services	(32,870)
Net Cash Provided by Operating Activities	<u>35,144</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Net proceeds from issuance of long-term debt obligations	93,190
Repayment of long-term debt	(19,635)
Debt issuance costs	(1,218)
Construction expenditures	(47,526)
Interest paid	(24,763)
Contributions received for construction	355
Net Cash Used in Capital Financing Activities	<u>403</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
(Purchase) sales of investments, net	(57,970)
Interest received	11,040
Net Cash (Used in) Provided by Investing Activities	<u>(46,930)</u>
Increase (Decrease) in Cash and Cash Equivalents	(11,383)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>43,587</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$32,204</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES	
Accretion of capital appreciation bonds	<u>\$(1,449)</u>
Noncash contributions by developers	<u>\$1,078</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$12,723
Adjustments to reconcile operating income to net cash provided by operating activities	
Other income	2,746
Depreciation and amortization	28,008
Undistributed income from public power agencies	(9,788)
Change in value of derivative financial instruments	2,946
Change in operating assets and liabilities	
Customer accounts receivable, net	2,523
Wholesale power receivables, net	877
Other accounts receivable	2,945
Materials and supplies	(1,644)
Prepayments	3,049
Accounts payable and other accruals	(728)
Unearned revenue and other liabilities	(8,513)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$35,144</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS	
Cash and cash equivalents	\$9,628
Restricted and designated cash and cash equivalents	16,630
Long-term Investments	138,616
Revenue bond and debt service reserves	130,301
Total Cash and Investments	<u>295,175</u>
Less: Noncash equivalents	<u>262,971</u>
CASH AND CASH EQUIVALENTS	<u>\$32,204</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2007 (Dollars in Thousands)

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

The Modesto Irrigation District (the "District") was formed in 1887 and operates as a nonregulated special district of the State of California. The District provides electric power on an exclusive basis within a 160 square mile service area in Stanislaus County and in the Don Pedro Reservoir area in Tuolumne County. The District also provides electric power in portions of southern San Joaquin County. The District provides irrigation water to an area of California's Central Valley that lies between the Tuolumne and Stanislaus rivers. The District also operates a surface water treatment plant that provides water for the City of Modesto's (the "City") domestic water supply.

The District is managed by a Board of Directors. The District's Board of Directors has the authority to fix rates and charges for the District's commodities and services. As a public power utility, the District is not subject to regulation or oversight by the California Public Utilities Commission (CPUC). The District may also incur indebtedness including issuing bonds. The District is exempt from payment of federal and state income taxes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the District are described below.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The District is presented as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District also has the option of following subsequent private-sector guidance subject to this same limitation. The District has elected to follow subsequent private-sector guidance. The District's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

The Modesto Irrigation District Financing Authority (the "Authority"), a joint power authority composed of the District and the City of Redding, provides financing for public improvements of the District. The District's Board of Directors serves as the Authority's Board, and District employees provide all of the Authority's administrative and management functions. All of the Authority's financial transactions, except the payment of debt service, are transacted with the District. Accordingly, all operations of the Authority are consolidated into the District's financial statements.

These consolidated financial statements present only the enterprise funds of the District and exclude the fiduciary funds of the District. The District's fiduciary funds comprise the pension plans and other postemployment benefit plans disclosed in Note 8.

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 - Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The District made the decision to implement this standard effective January 1, 2007.

Presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash equivalents include all debt instruments with maturity dates of 90 days or less from the date of purchase and all investments in the Local Agency Investment Fund (LAIF), and money market mutual funds. LAIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed

in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA cash and investments are recorded at amortized cost which approximates market. The District's deposits with LAIF are generally available for withdrawal on demand.

INVESTMENTS

Generally, all investments are carried at their fair market value, except for guaranteed investment contracts (GICs), which are carried at cost. Market values may have changed significantly after year-end.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The District recognizes an estimate of uncollectible accounts for its customer accounts receivable related to electric service based upon its historical experience with collections. At December 31, 2007, the District maintained an allowance for doubtful accounts for its retail customers for electric services of \$3,400. For its wholesale power receivables, the District maintained an allowance for doubtful accounts at December 31, 2007 of \$172, due to collection issues resulting from the uncertain California wholesale energy markets. The District's net expense relating to doubtful accounts for all accounts receivable is properly included in the accompanying statements of revenues, expenses, and changes in net assets as an offset to operating revenues.

MATERIALS AND SUPPLIES

Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction or expense when used.

RESTRICTED ASSETS

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

PREPAYMENTS

The balance represents payments to vendors for costs applicable to future accounting periods.

OTHER CURRENT ASSETS

The balance represents miscellaneous receivables and deposits.

CAPITAL ASSETS

Capital assets are generally defined by the District as assets with an initial, individual cost of more than \$2.5 and an estimated useful life in excess of three years.

Capital assets are stated at cost. Costs and related accumulated depreciation of assets sold or otherwise disposed of are eliminated from the accounts and related gains or losses are considered non-operating. The costs of replacement are charged to utility plant. Repair and maintenance costs are charged to expense in the period incurred. Interest costs incurred, plus amortization of deferred debt issue costs and related bond discounts/premiums, less any related interest earned during periods of construction of utility plant assets are capitalized at a rate based on the District's borrowings related to that construction. In 2007, the District capitalized interest totaling \$167.

Depreciation is computed using the straight-line method over the useful lives of the assets, which generally range from twenty to fifty years for electric and domestic water plant assets and ten to one hundred years for irrigation system assets. The estimated useful lives of furniture, fixtures, equipment and other assets range from five to twenty years.

UNEARNED REVENUE AND OTHER LIABILITIES

Billings to the City in connection with the Domestic Water Project (the "Project") in advance of the operation of the facility were recorded as deferred revenues. The deferred revenues are being amortized over the life of the facility. Annual differences between billings to the City and the District's annual Project costs are charged or credited to deferred revenues. Accordingly, the District's financial statements reflect Domestic Water operations on a break-even basis, consistent with the operating agreements between the District and the City.

Other liabilities include the pension and OPEB obligations, customer meter deposits, and other miscellaneous long-term liabilities.

ASSET RETIREMENT OBLIGATIONS

The District has identified potential retirement obligations related to certain transmission, distribution and irrigation canal facilities located on properties that do not have perpetual lease rights. The District's nonperpetual leased land rights generally are renewed continuously because the District intends to utilize these facilities indefinitely. Since the timing and extent of any potential asset retirements are unknown, the fair value of any obligations associated with these facilities cannot be reasonably estimated. Accordingly, a liability has not been recorded at December 31, 2007 for these assets.

The District has identified retirement obligations for transformers that are known to contain PCB oil and has estimated a liability for the disposal of these transformers at retirement at the fair value of the obligation. The District has recorded a liability in 2007 for this obligation in the amount of \$138.

The District has no other potential asset retirement obligations that represent a material asset retirement obligation (ARO). The District accrues costs related to capital assets when an obligation to decommission facilities or other liability is legally required. Additionally, the District recognizes the ARO as an increase in the capitalized carrying amount of the related long-lived asset. Annual accretions of ARO liabilities are recorded as operating expenses and the capitalized costs are depreciated over the useful life of the related long-lived assets.

LONG-TERM DEBT

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest rate method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

DERIVATIVE FINANCIAL INSTRUMENTS

The District has gas price swap agreements and positions on natural gas commodity futures that meet the definition of derivative financial instruments and are, therefore, recorded on the balance sheet at fair market value with a corresponding charge to purchase power expense and power generation expenses in the statements of revenues, expenses and changes in net assets. Fair market value is estimated by comparing contract prices to forward market prices quoted by third party market participants or provided in relevant industry publications. The total fair value of the District's gas price swap agreements and natural gas commodity futures positions, net at December 31, 2007 is an asset of \$1,691.

Additionally, during 2007, the District had entered into a variable-to-fixed interest rate swap agreement (the swap) that met the definition of a derivative financial instrument and was recorded on the balance sheet at fair value at December 31, 2007. The swap agreement had a notional amount of \$93,190 that is represented by two transactions in the amounts of \$23,370 and \$69,820. The District will pay a fixed rate of 4.378% on the \$23,370 transaction with a term ending on September 1, 2027. The District will pay a fixed rate of 4.440% on the \$69,820 transaction with a term ending on September 1, 2037. In return the counterparty pays the District the index market interest rate on the variable rate bonds. The total fair value of the District's interest rate swap agreement at December 31, 2007 was a liability of \$7,533.

The District is exposed to risk of nonperformance if the counterparties default or if the agreements are terminated. The District monitors the risk, and does not anticipate nonperformance.

NET ASSETS

GASB No. 34 requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

REVENUES AND EXPENSES

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Electric and Irrigation Revenues

Retail and wholesale electric revenues are billed on the basis of monthly cycle bills and are recorded as revenue when the electricity is delivered. The District records an estimate for unbilled revenues earned from the dates its retail customers were last billed to the end of the month. At December 31, 2007, unbilled revenues of \$14,617 are included in customer accounts receivable in the balance sheet.

Irrigation revenues are recognized when billed based on annual assessments, payable with installment payments due in June and December.

Purchased Power

The majority of the District’s power needs are provided by power purchases. These power purchases are principally made under long-term agreements with the M-S-R Public Power Agency and the Hetch Hetchy System, owned and operated by the City and County of San Francisco. Additionally, the District purchases power from others under various power purchase agreements. Gains or losses on power purchase and sale transactions that are settled without physical delivery are recorded as net additions or reductions to purchased power expense.

Capital Contributions

Cash and capital assets are contributed to the District from customers, consolidated or external parties. The value of property contributed to the District is reported as capital contributions on the statements of revenues, expenses and changes in net assets.

NOTE 3 - CASH AND INVESTMENTS

The District’s investment policies are governed by the California Government Codes and its bond Indenture, which restricts the District’s investment securities to obligations which are unconditionally guaranteed by the United States (U.S.) Government or its agencies or instrumentalities; direct and general obligations of the State of California (State) or any local agency within the State; bankers’ acceptances; commercial paper; certificates of deposit; time certificates of deposit; repurchase agreements; reverse repurchase agreements or securities lending agreements; medium-term corporate notes; shares of beneficial interest; mortgage pass-through securities; financial futures and financial option contracts; and deposits with the Local Agency Investment Fund (LAIF). Investments in LAIF are unregistered, pooled funds. LAIF is a component of the Pooled Money Investment Account Portfolio managed by the State Treasurer, in accordance with Government Code Sections 16430 and 16480. The fair value of the District’s investments in LAIF approximates the value of its pool shares.

The District’s investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

Deposits in each local and area bank are insured by the FDIC in the amount of \$100 for interest bearing accounts and \$100 for non-interest bearing accounts.

The District maintains a rate stabilization fund to protect District customers from extreme rate increases that would otherwise be necessitated by dramatic short-term changes in purchased power or other operating costs. Annual transfers into and out of the fund are determined by the District’s Board of Directors (Board), which may utilize these unrestricted funds for any lawful purposes. The rate stabilization fund consists of an undivided portion of the District’s general operating funds. No transfers occurred during fiscal year 2007.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the District’s deposits may not be returned to the District.

As of December 31, 2007, \$15,623 of the District’s bank balances known to be individually exposed to custodial credit risk were as follows:

Uninsured and uncollateralized \$15,623

The District’s investment policy does not address this risk.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District does not have any investments exposed to custodial credit risk.

The District’s investment policy does not address this risk.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2007, the District’s investments were rated as follows:

<i>Investment Type</i>	<i>Standard & Poors</i>
Commercial Paper	A1/P1
LAIF	NR
Money Market Mutual Funds	AAA
Federal Farm Credit Bank Notes	AAA
Freddie Mac	AAA
Federal Home Loan Bank Bonds	AAA
Fannie Mae	AAA
Corporate Medium Term Notes	A+
Investment Agreement Contracts	NR

The District's investment policy addresses this risk. The District limits investments to those rated, at a minimum, "A" or equivalent for medium-term notes and commercial paper by a nationally recognized rating agency.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2007, the District's investment portfolio was concentrated as follows:

<i>Investment Type</i>	<i>Percentage of Portfolio</i>
Guaranteed Investment Contracts	42.00%
Federal Home Loan Bank Bonds	17.00%
Fannie Mae	11.00%
Corporate Medium Term Notes	9.00%
Freddie Mac	7.00%

The District's investment policy does not address this risk and places no limit on the amounts invested in any one issuer for federal agency securities.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

Though the District has restrictions as to the maturities of some of the investments, it does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increases in interest rates. Of the District's total portfolio, \$155,009 is subject to interest rate risk at December 31, 2007. \$16,393 of this amount has maturities of 90 days or less. The remaining investments mature between one to five years

NOTE 4 - RESTRICTED ASSETS

RESTRICTED ACCOUNTS

Certain proceeds of the District's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited. The following accounts are reported as restricted assets:

- Redemption** Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve** Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Project** Used to report debt proceeds restricted for use in construction.

Carrying Value as of December 31, 2007

<i>Restricted Accounts</i>	
Project fund	\$105,691
Reserve fund	23,589
Redemption fund	16,630
Domestic water and reserve contingency fund	1,021
Total Restricted Accounts	<u>\$146,931</u>

DOMESTIC WATER RESERVE AND CONTINGENCY

As a condition of the Treatment and Delivery Agreement with the City of Modesto for domestic water, the District has established an account for the payment of emergency maintenance items that arise.

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2007 follows:

	<i>Balance 01/01/07</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance 12/31/07</i>
Capital assets, not being depreciated				
Land and land rights	\$21,394	\$20	\$-	\$21,414
Capital assets being depreciated				
Electric system	589,061	25,036	199	613,898
Domestic water plant	104,717	55	-	104,772
Irrigation system	46,500	148	-	46,648
General and administrative facilities	55,258	1,899	1,646	55,511
Total Capital Assets Being Depreciated	<u>795,536</u>	<u>27,138</u>	<u>1,845</u>	<u>820,829</u>
Total Capital Assets	<u>816,930</u>	<u>27,158</u>	<u>1,845</u>	<u>842,243</u>
Less: Accumulated depreciation	<u>(306,652)</u>	<u>(28,001)</u>	<u>1,741</u>	<u>(332,912)</u>
Construction in progress	17,574	57,284	26,080	48,778
Net Capital Assets	<u>\$527,852</u>			<u>\$558,109</u>

NOTE 6 - INVESTMENT IN PUBLIC POWER AGENCIES

The District's investments in public power agencies are accounted for using the equity method of accounting and consist of the following at December 31, 2007:

	2007
M-S-R Public Power Agency (M-S-R)	<u>\$(95,131)</u>
Transmission Agency of Northern California (TANC)	<u>\$512</u>

M-S-R

The District, Silicon Valley Power and the City of Redding formed M-S-R for the principal purpose of acquiring electric power resources for the electric systems of its members. The District owns a 50% interest in generation assets owned by M-S-R. The District's deficit investment derives from its proportionate interest in M-S-R's deficit and the District's commitment to repay its share of M-S-R's debt, among other costs and obligations, through its take-or-pay commitment. The generation activities of M-S-R consist of a 28.8% ownership interest in a 507-megawatt (MW) unit of a coal-fired electricity generating plant located in New Mexico (the San Juan Plant). M-S-R is also a participant in the Southwest Transmission Project, a 500-kilovolt alternating current transmission line between Central Arizona and Southern California that provides a firm transmission path for the transmission of electric power from the San Juan plant. The District is obligated to make interest and other generation and transmission project related payments to M-S-R commensurate with its 50% interest in M-S-R, and receives 50% of the electrical power generated by M-S-R. In 2006, M-S-R entered into agreements with PPM Energy, Inc. to purchase renewable energy from the Big Horn wind project. The District's share of the Big Horn output is 12.5% and is obligated to make payments commensurate with its share of the project. During 2007, the District incurred purchased power costs of \$47,076, in connection with these M-S-R resources. At December 31, 2007, the District had a payable of \$3,886, to M-S-R for its proportionate share of project related expenditures.

TANC

TANC is a joint power agency that owns a portion of the California Oregon Transmission Project (COTP), a transmission line between central California and southern Oregon. The District has a 21.1% ownership interest in TANC. TANC is entitled to approximately 80% of the 1,600 MW transmission capacity of the COTP. In addition, the District has a 34% share of TANC's transmission entitlement under the South of Tesla transmission agreements with Pacific Gas & Electric Company (PG&E) that provides the District with 102 MW of transmission between Tesla and Midway. The District is responsible for 34% of the South of Tesla operating costs. In July 2006, TANC changed the method used to invoice members for transmission costs. TANC began invoicing its members at the monthly TANC Open Access Transmission Tariff (OATT) rate. The OATT rate is charged to the member based on their entitlement share of kWhs. During 2007, the District incurred transmission costs of \$10,265, relating to these projects, which are included in purchased power expense in the accompanying statements of revenues, expenses and changes in net assets. At December 31, 2007, the District has a long-term payable of \$5,179, to TANC relating primarily to certain non-cash expenses of TANC. This liability is included in unearned revenue and other liabilities in the accompanying consolidated balance sheets. In 2006, the District began selling excess transmission capabilities from the COTP transmission lines through TANC, as agent of the District. The District recognized \$94 in revenues from transmission sales in the current year.

SUMMARY

Summarized audited financial information of M-S-R and unaudited information for TANC is as follows at December 31:

	2007
Total assets	<u>\$693,092</u>
Total liabilities	<u>\$880,773</u>
Total net assets	<u>(187,681)</u>
Total Liabilities and Net Assets	<u>\$693,092</u>
Changes in net assets during the year	<u>\$18,491</u>

The long-term debt of M-S-R and TANC, which totals approximately \$784,575 at December 31, 2007, is collateralized by a pledge and assignment of net revenues of each agency, supported by take-or-pay commitments of the District and the other members. Should other members of these agencies default on their obligations to the agencies, the District would be required to make "step up" payments to cover a portion of the defaulted payments.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY

The Authority is a joint power authority that provides financing for public improvements of the District, and is accounted for as a component unit of the District. The revenues and expenses of the Authority are eliminated upon consolidation with the District. The Authority's summary financial information as of December 31, 2007 and for the year then ended is as follows:

Assets

Current assets	\$6,558
Long-term investments	83,771
Debt service installment receivable, less current portion	<u>79,010</u>
Total Assets	<u>169,339</u>

Liabilities and Net Assets

Current liabilities	5,764
Derivative financial instruments	7,533
Long-term debt	156,042
Net assets	<u>-</u>
Total Liabilities and Net Assets	<u>169,339</u>

Revenues and Expenses

Revenues:

Debt service contributions	11,701
Interest income	<u>13</u>
Total Revenues	11,714
Change in fair value of derivatives	(7,533)
Interest expense	<u>(4,181)</u>

Change in net assets	-
NET ASSETS, Beginning of Year	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ -</u>

NOTE 7 - LONG-TERM DEBT

LONG-TERM DEBT

The following bonds have been issued:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding 12/31/07 Amount
2/26/98	1998D Domestic Water Bonds	9/1/22	4.75 - 5.50	\$94,715	\$70,690
1/7/99	1999A Certificates of Participation Refunding Bonds	7/1/26	4.25 - 4.75	70,501	45,028
1/11/99	1999B Certificate of Participation Refunding Bonds	7/1/22	5.30	49,775	39,580
12/20/01	2001A Certificate of Participation Bonds	7/1/31	3.50 - 5.00	98,600	89,245
5/9/03	2003A Certificate of Participation Bonds	7/1/33	2.25 - 5.00	93,225	85,095
3/17/04	2004A Certificate of Participation Bonds	7/1/26	3.50 - 5.00	50,000	50,000
3/17/04	2004B Certificate of Participation Bonds	7/1/35	Variable	66,025	66,025
7/25/06	2006A Certificate of Participation Bonds	10/1/36	4.00 - 5.00	146,950	139,490
6/26/07	2007F Domestic Water Revenue Bonds	9/1/37	Index Rate	93,190	93,190
1/7/99	1999A Capital Appreciation Certificates - Accreted Interest	12/31/21	4.10 - 5.30	N/A	10,294

GENERAL DEBT TERMS

The net revenue of the District's electric system is pledged for repayment of COPs and Revenue Bonds. The Domestic Water Revenue Bonds are collateralized by a pledge of payments made by the City of Modesto relating to domestic water services. Interest on certificates and revenue bonds is generally payable semi-annually, except for interest on certain COPs that is payable on the last day of each interest rate reset period and, interest on capital appreciation certificates (a component of COPs), which are paid at the date of maturity.

The District is in compliance with required bond covenants.

LONG-TERM DEBT REPAYMENT

Revenue bonds debt service requirements to maturity follows, not including accreted interest from Capital Appreciation Bonds:

<i>Year Ending December 31,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2008	\$19,274	\$30,083	\$49,357
2009	20,726	29,018	49,744
2010	22,665	28,220	50,885
2011	22,749	27,711	50,460
2012	23,038	27,281	50,319
2013-2017	118,617	120,702	239,319
2018-2022	127,168	93,371	220,539
2023-2027	116,276	63,660	179,936
2028-2032	121,130	35,854	156,984
2033-2037	86,700	10,387	97,087
Total Requirements	<u>\$678,343</u>	<u>\$466,287</u>	<u>\$1,144,630</u>

Interest payments for variable rate debt are computed using the rate in effect at December 31, 2007.

The District has outstanding debt obligations totaling \$67,815 at December 31, 2007, which are defeased and excluded from the District's long-term debt.

FAIR VALUE

The estimated fair values of the District's long-term debt, calculated using the value of each individual series based on quoted market prices for the same or similar issues at December 31, are as follows:

	<i>2007</i>
Carrying amount	\$678,343
Fair value	687,228

LONG-TERM OBLIGATION SUMMARY

Long-term obligation activity for the year ended December 31, 2007 is as follows:

	<i>01/01/07 Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>12/31/07 Balance</i>	<i>Due Within One Year</i>
Domestic Water					
Revenue Bonds	\$73,780	\$93,190	\$3,090	\$163,880	\$3,255
Certificate of Participation	531,008	-	16,545	514,463	16,019
Accreted interest on Capital Appreciation Certificates	8,846	1,448	-	10,294	1,041
Unamortized debt discount	(3,074)	-	(136)	(2,938)	-
Unamortized premium	9,098	-	963	8,135	-
Unamortized loss on advance refunding	(16,796)	-	(2,171)	(14,625)	-
Unearned revenue and other liabilities	32,513	-	8,513	24,000	-
Derivative financial instruments	3,740	4,925	-	8,665	1,046
Equity interest in M-S-R	104,605	-	9,474	95,131	-
Totals	<u>\$743,720</u>	<u>\$99,563</u>	<u>\$36,278</u>	<u>\$807,005</u>	<u>\$21,361</u>

NOTE 8 - EMPLOYEE BENEFIT PLANS

The District maintains two retirement plans and a retiree medical benefits plan for its eligible employees. The Retirement Committee of the District's Board of Directors oversees the plans. The District has a Retirement Department that performs plan administrative functions. Plan investments are managed by the District Treasury Department and third-party investment managers. All funds of the plans are separate assets of the retirement plans, and are not assets of the District.

BASIC RETIREMENT PLAN

Plan Description. The Basic Retirement Plan (the Plan) is a single-employer noncontributory defined benefit pension plan for eligible employees. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. The District issues publicly available financial statements and required supplementary information of the Plan.

Annual Pension Cost. The District contributes at an actuarially determined rate. The annual required contribution was determined in accordance with the projected unit credit actuarial cost method. The actuarial value of assets is based on fair market valuations prepared by an appraisal service. The unfunded liability is amortized over a 30-year period using the "rolling amortization" approach. The amortization period is still open. Significant assumptions used to determine the actuarial accrued liabilities as of January 1, 2007, the most recently completed actuarial valuation, include the following, all reflecting annual compounding:

- Rate of return on the investment of present and future assets of 7.75% per year;
- Discount rate applied to the pension benefit obligation of 7.75% per year;
- Salary increases of 4% per year; and
- Cost of living increases to retirees of 2.5% per year.

The District's annual pension cost and net pension obligation for 2007 was as follows:

	2007
Annual required contribution	\$7,490
Interest on net pension (prepaid) obligation	137
Adjustment to annual required contribution	(116)
Annual Pension Cost	<u>7,511</u>
Contributions made	<u>7,950</u>
Decrease in net pension obligation	(439)
Net pension obligation, beginning of period	<u>1,771</u>
Net Pension Obligation, End of Period	<u>\$1,332</u>

Funding Policy. The Board of Directors has established, and may amend, the contribution requirements for Plan members and the District set forth in the terms of the Plan. The Terms of the Plan empower the Retirement Committee of the District (the Committee) to make, at reasonable intervals, an analysis of the funding requirements of the Plan for the payment of retirement benefits and expenses, based on reasonable actuarial assumptions and methods which take into account the experience of the Plan and the reasonable expectations, and on the basis of this analysis, to establish a funding policy for the Plan. The terms of the Plan state that, subject to the Board of Directors' right to suspend or reduce contributions to the Plan at any time, the District shall contribute to the Plan at least once a year, the amounts necessary to maintain the Plan on a sound actuarial basis, in a manner consistent with the funding policy established by the Committee.

The funding policy currently established by the Committee requires the District to contribute an amount set forth in the Recommendation Regarding Total Contributions presented in the Plan actuary's 2007 Actuarial report. The Required Annual Contribution set forth in the Recommendation regarding Total contributions presented in the Plan actuary's 2007 Actuarial Report is \$7,511 which was contributed January 2, 2007.

The District is the sole contributing entity. Prior to 1989, participants were allowed to make voluntary contributions and prior to 1977, participating contributions were required.

Certain historical trend information is summarized as follows:

<i>Fiscal Year Ending</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation/ (Prepaid)</i>
12/31/07	\$7,511	100%	\$1,332
12/31/06	\$8,287	100%	\$1,771
12/31/05	\$7,561	100%	\$1,751

The schedule of funding progress is presented below:

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded Ratio (a/b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i>
12/31/07	\$134,628	\$163,698	\$29,069	82.2%	\$28,622	101.6%
12/31/06	\$120,922	\$151,878	\$30,956	79.6%	\$29,616	104.5%
12/31/05	\$109,124	\$133,933	\$24,809	81.5%	\$28,948	85.7%

SUPPLEMENTAL RETIREMENT PLAN

Eligible employees of the District also participate in the District's supplemental retirement plan (the Supplemental Plan). The Supplemental Plan is a defined contribution plan and serves as partial or full replacement of social security for participants, depending upon date of employment. Participants are required to contribute 5% of their compensation on a pre-tax basis. The District wholly matches the contributions. Participants become fully vested in the District's portion of their account after six months of employment. Covered payroll of Participants is the same as under the Basic Retirement Plan. Participants have two investment options, a fund comprised of short-term fixed income money market securities, managed by the District's Treasury Department, and a fund comprised primarily of equities, managed by third party investment managers. The District made contributions to the Supplemental Plan of \$1,643 for 2007.

HEALTH CARE BENEFITS

Plan Description. The Retiree Health Program is a single-employer defined benefit healthcare plan. The District provides health care benefits, in accordance with District policy, to qualified retirees and their spouses. The qualification requirements for these benefits are similar to those under the District's retirement plans.

Funding Policy. Currently 233 employees and surviving spouses meet those eligibility requirements. The District contributes the full cost of coverage for employees who retired before 1992; employees who retire in 1992 and thereafter pay a portion of the monthly premium for eligible dependent coverage, and the District pays the remainder of the cost of the plan. Covered retirees are also responsible for personal deductibles and co-payments. The District pays for post-retirement dental and vision care for retirees only to age 65. These other postemployment benefits are charged to expense on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The District contributes at an actuarially determined rate. The annual required contribution was determined in accordance with the projected unit credit actuarial cost method. The actuarial value of assets is based on fair market valuations prepared by an appraisal service. Significant assumptions used to determine the actuarial accrued liabilities as of January 1, 2007, the most recently completed actuarial valuation, include the following, all reflecting annual compounding:

- Rate of return on the investment of present and future assets of 7.75% per year;
- Inflation rate applied to the pension benefit obligation of 3.0% per year;
- Salary increases of 3.5% per year; and
- Projected health care cost increases of 8.0% for medical plans in 2008 trending to 5.0% in 2011 and thereafter and 3.0% per year for vision and 4.0% per year for dental for all future periods.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, which was implemented in the current year as stated in Note 2. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over thirty years as a percentage of rising covered payroll. The following table illustrates the amount actually contributed to the plan, and changes in the District's net OPEB obligation (dollar amounts in thousands).

	2007
Annual required contribution	\$4,993
Interest on net OPEB obligation	387
Adjustment to annual required contribution	(253)
Annual OPEB cost (expense)	5,127
Contributions made	4,520
Increase in net OPEB obligation	607
Net OPEB obligation, beginning of period	-
Net OPEB Obligation (asset), End of Period	\$607

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007 was as follows (dollars in thousands):

<i>Fiscal</i>	<i>Annual</i>	<i>Percentage</i>	<i>Net</i>
<i>Year</i>	<i>OPEB</i>	<i>of Annual</i>	<i>OPEB</i>
<i>Ending</i>	<i>Cost</i>	<i>Contributed</i>	<i>Obligation</i>
12/31/07	\$5,127	88.17%	\$607

The schedule of funding progress was as follows for 2007 (dollars in thousands):

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded Ratio (a/b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll ([b-a]/c)</i>
12/31/07	\$4,198	\$56,238	\$52,040	7.46%	\$30,038	173.25%

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 9 - COMMITMENTS

The District purchases most of its purchased power from M-5-R (Note 6) and through the following long-term agreements:

THE CITY AND COUNTY OF SAN FRANCISCO POWER PURCHASE AGREEMENT

The City and County of San Francisco (CCSF) Power Purchase Agreement (Agreement) was amended in 2005 and is titled "Amended and Restated Long Term Power Sales Agreement between the City and County of San Francisco and the Modesto Irrigation District (ARLTPSA). The ARLTPSA provides for the delivery of power at volumes that are dependent upon available levels of power generated from CCSF's Hetch Hetchy Hydroelectric System. Such power is priced based on formulas in the agreement which are based on numerous factors including the level demonstrated Class One (for defined public entities) uses of the District's take. The ARLTPSA guarantees Class One power for the District with a minimum schedule of 30% of the capacity for the month and the agreement expires in 2007. The District's purchases in 2007 totaled \$8,624. Total commitments under this agreement over the next five years are as follows as of December 31, 2007:

2008	\$1,323
2009	1,387
2010	1,453
2011	1,524
2012	1,598

OTHER ENERGY PURCHASE COMMITMENTS

The District has a number of other power and natural gas purchase agreements with various entities, which provide for power and fuel deliveries, under various terms and conditions through 2016. Total commitments under these agreements over the next five years are as follows as of December 31, 2007:

2008	\$126,552
2009	101,598
2010	85,796
2011	51,574
2012	42,734

NOTE 10 - CONTINGENCIES

CALIFORNIA ENERGY MARKET REFUND DISPUTE

In 2001, FERC issued an order establishing evidentiary hearings for the purpose of determining the amount of refunds, if any, due to customers of the California ISO and PX spot markets from market participants selling into those markets for the period October 2, 2000 through June 20, 2001 (the refund period). During this time period, the District was both a seller and a buyer in the California spot markets. This matter has been the subject of various proceedings with FERC and court filings with the Ninth District since 2001. The Administrative Law Judge (ALJ) assigned to the proceedings adopted hearing procedures that, among other issues, addressed the calculation of refunds and identification of the amount currently owed to each supplier (with separate quantities due from each entity) by the California ISO, the investor owned utilities, and the State of California. In December 2002, the ALJ issued his Certification of Proposed Findings, and in March 2003, FERC issued an Order (the March Order) accepting most of the Findings and adjusting the formula used to calculate the mitigated market-clearing price (MMCP) to be used in resettling the markets during the refund period. In its March Order, FERC noted that any future FERC findings of energy market manipulation that result from its ongoing review of

additional evidence filed would neither result in a resetting of the refund effective date for this proceeding, nor impact the just and reasonable MMCP developed for the refund period. Throughout the process, the District challenged the FERC's jurisdictional authority to order refunds against the District, as a municipal utility.

In September 2005, the Ninth Circuit found that FERC does not have refund authority over wholesale power sales made by governmental entities and other non-public utilities, including the District. On March 7, 2007, the Ninth Circuit denied the California Parties' petition for rehearing and rehearing en banc as to the September 2005 decision. The California Parties have indicated that they intend to file a petition for writ of certiorari to the U.S. Supreme Court. The mandate has issued for the September 2005 decision and proceedings have begun at FERC to determine how the Ninth Circuit's decision should be implemented.

In August 2006, the Ninth Circuit issued a decision, as amended, which could have expanded the scope of transactions for which the District would have been required to pay refunds, but for the September 2005 decision addressing jurisdiction. The August 2006 decision requires FERC to review certain evidence in considering whether to open up the time period for refunds back to May 2000. The decision also requires FERC to review multi-day transactions, but denies refunds for bilateral sales, including to the California Energy Resources Scheduling ("CERS") division of the California Department of Water Resources ("CDWR"). If the California Parties prevail at the U.S. Supreme Court on their jurisdictional arguments, the California Parties may attempt to apply this ruling against the District at FERC. The California Parties may also use such ruling to support their cases in the civil proceedings discussed below. The mandate for the Ninth Circuit's August 2006 decision has not yet issued. Even if the Ninth Circuit's decision stands, the District must still defend several civil actions filed by the California Parties and the State of California as described below. Under the latest MMCP formula announced by FERC, the District estimates its potential refund exposure to be in the range of \$4,900 to \$7,700.

CLAIMS FOR 2000 AND 2001 POWER SALES

Following the Ninth Circuit's jurisdictional ruling in September 2005, the California Parties began to seek refunds through other jurisdictions. In December 2005, the California Parties presented a claim for damages pursuant to California Government Code §905 et seq. ("Tort Claims Act"). The California Parties' claim arises from the District's power sales from May 1, 2000 through June 20, 2001 in the wholesale electricity markets operated by the California ISO and the California PX. The California Parties allege that the District is contractually obligated under the California PX Participation Agreement and/or the ISO Scheduling Coordinator Agreement to reimburse the California Parties for any amounts that FERC might find were unjust under the California Refund Proceedings. The District returned the claim without action as untimely filed. In March 2006, the California Parties filed lawsuits in the Federal District Court for the Eastern District of California, Sacramento Division. The District, in conjunction with other municipal entities, filed motions to dismiss for failure to state a claim, raising defenses such as expiration of the statute of limitations and lack of standing. Other entities argued that the U.S. District Court had no jurisdiction to hear the claims. On October 24, 2006, the Federal District Court heard oral argument on the issue concerning subject matter jurisdiction. The judge deferred oral argument on the issue of failure to state a claim. On March 16, 2007, the judge issued an order dismissing both complaints before him for lack of subject matter jurisdiction. The judge's order has been appealed by the California Parties to the Ninth Circuit. On April 9, 2007, the California Parties filed a Complaint in state Superior Court in Los Angeles against the District and other entities, seeking substantively similar relief as they did in the U.S. District Court, Eastern District. The California Parties have served their Complaint on the District, and the District intends on vigorously defending against this Complaint.

On January 3, 2006 the Attorney General of the State of California and the California Department of Water Resources (collectively, the State) presented a claim for damages pursuant to the Tort Claims Act. The State's claim arises out of the District's power sales into the California ISO/ California PX from October 2, 2000 through June 20, 2001. Similar to the California Parties' claim, discussed above, the State alleges that the District is contractually obligated under the California PX Participation Agreement and the ISO Scheduling Coordinator Agreement to reimburse the State for any amounts that FERC might find were unjust under the California Refund Proceedings. The District returned the claim without action as untimely. On June 14, 2006, the State filed a lawsuit against the District. On February 23, 2007, the Plaintiffs served their Complaint on the District, triggering the time period for the District to answer. On February 28, 2007, the District and other entities entered into tolling agreements with the State. As an outcome of the tolling agreement, on March 1, 2007, the State moved to dismiss its Complaint against the District without prejudice.

The District intends on defending against these suits. The District has stated that this estimated range accounts for the plaintiffs' positions before the FERC, and on appeal to the U.S. Courts of Appeal, concerning potential increased refund liability due to claims for an extended period, for a larger universe of transactions and other adjustments to the proxy price desired by the plaintiffs which would increase refund liability. While the plaintiffs may have the opportunity to refresh their arguments before the Eastern District Court and state court, the District will be able to refresh arguments it had raised before the FERC, but which were rejected, e.g., that the District made sales under emergency conditions to the ISO, which we contend is a mitigating factor in deciding whether the District ought to be held liable for paying refunds. The District contends with the District's assessment that such estimated range is the result of the plaintiffs' claims at FERC and on appeal for an expanded time period for refunds and universe of transactions and adjustments to the FERC proxy price, and that such range also reflects the estimated refund liability at this time in the Eastern District and potential state court litigation.

These parties' lawsuits make it possible that netting of the District's accounts receivable and the District's refund liability may not occur through the same administrative mechanism. It may be that these processes will be bifurcated. The District also estimates that a payment for some part of the California Parties' claims is probable in these proceedings, given the aggressiveness of the California Parties' claims.

With regard to the issue of refunds for a longer refund period than that ordered by the FERC, i.e., starting the refund period from May 2000 rather than from October 2, 2000, it is the District's conclusion that it is currently impossible to determine whether it is probable that the above-referenced plaintiffs and potential plaintiffs will be able to obtain refunds for the lengthened period. Those parties rely on the U.S. Court of Appeals for the Ninth Circuit decision, *State of California, ex. rel. Bill Lockyer v. FERC*, 383 F.3d 2006 (2004), and other pending litigation, e.g., an appeal in Ninth Circuit case number 01-71051, et. al., to support their claim for refunds for the extended period and *Public Utils. Comm'n of the State of California v. FERC*, 456 F.3d 1025, as amended 426 F.3d 227 (2006) as amended Aug. 31, 2006. Those parties have received substantial opposition to their positions. Moreover, the FERC has not applied its proxy price methodology for the pre-October period. In addition, the California Parties have pursued their CERS claim in the Puget Sound case, and it will be difficult to see the impact of decisions concerning that arena on transactions with CERS, if any, until FERC applies those decisions.

In the meantime, the U.S. Court of Appeals for the Ninth Circuit has been mediating settlement efforts which are ongoing, and in which the District has been participating.

Although the California Parties' lawsuits and the State's claims do not specify the amount of damages that the California Parties seek, the District expects that the amounts would parallel the refund that the District would owe to the market if it were subject to the FERC-based refund liability. Under the latest MMCP formula prescribed in the FERC proceedings, the District estimates its potential refund exposure to be in the range of \$4,900 to \$7,700.

As such, the District has maintained an accrued liability of \$4,900 related to their contingent refund obligations at December 31, 2007.

GENERAL CONTINGENCIES

In the normal course of operations, the District is party to various claims, legal actions and complaints. However, the District's counsel and management believe that the ultimate resolution of these matters will not have a significant adverse effect on the financial position or results of operations of the District.

OPEN CONTRACTS

The District has open contracts for approximately \$63,945 for the domestic water plant expansion. As of December 31, 2007, approximately \$8,319 has been expended.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 12 - SUBSEQUENT EVENTS

RATE ADJUSTMENT

The District increased rates effective January 1, 2008 and May 1, 2008.

INTEREST RATE SWAP AGREEMENT

The District entered into a variable to fixed rate swap agreement for the 2004B Certificate of Participation Bonds in January 2008.

TRANSMISSION COSTS OF SOTP

Pacific Gas and Electric Company ("PG&E") has filed to increase the transmission costs of the South of Tesla Principles ("SOTP"), an Existing Transmission Contract, to which MID has an allocation of the Entitlement of the Transmission Agency of Northern California ("TANC"). The estimated exposure if PG&E were to prevail in this case, is approximately \$2.18 million annually beginning in July 2008. For the other facet of PG&E's case, the general, tenth transmission case, for use of the PG&E-owned facilities not using MID Existing Transmission Contract rights, there is no estimate of cost exposure at this time.

NOTE 13 - RESTATEMENT OF NET ASSETS

Net assets have been restated due to an adjustment for OPEB and a prior period adjustment for revenue recognition.

Net Assets - December 31, 2006 (as originally stated)	\$65,949
Prior period adjustment to OPEB obligation	(3,200)
Revenue earned in prior years	<u>2,408</u>
Net Assets - January 1, 2007 (As Restated)	<u>\$65,157</u>