

# **MODESTO IRRIGATION DISTRICT**

Modesto, California

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2012 and 2011

# MODESTO IRRIGATION DISTRICT

## TABLE OF CONTENTS As of and for the Years Ended December 31, 2012 and 2011

---

	<u>Page No.</u>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 12
Balance Sheets	13 – 14
Statements of Revenues, Expenses and Changes in Net Position	15
Statements of Cash Flows	16 – 17
Statements of Plan Net Position	18
Statements of Changes in Plan Net Position	19
Notes to Financial Statements	20 – 59
Required Supplementary Information	
Other Post Employment Benefits (OPEB) Required Supplementary Information	60
Supplementary Information	
Combining Statements of Plan Net Position	61
Combining Statements of Changes in Plan Net Position	62

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Modesto Irrigation District  
Modesto, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Modesto Irrigation District and its fiduciary funds (the District), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District and its fiduciary funds as of December 31, 2012 and 2011, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Members of the Board of Directors  
Modesto Irrigation District

**Emphasis of Matter**

As discussed in the Note 1, the District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2012. Our opinion is not modified with respect to this matter.

**Other Matters**

In our report dated May 14, 2012, we expressed an opinion that the 2011 financial statements did not fairly present the financial position, results of operations and cash flows for the District as a whole in accordance with accounting principles generally accepted in the United States of America because the financial statements did not include the fiduciary funds, comprised of pension plans and other postemployment benefit plans disclosed in Note 9, which are managed for the benefit of the District's employees, retirees and related beneficiaries. The District has included the fiduciary funds in the financial statements as of and for the years ended December 31, 2012 and 2011. Accordingly, our present opinion on the 2011 financial statements, as presented herein, is different from that expressed in our previous report.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statements of plan net position and combining statements of changes in plan net position are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of plan net position and combining statements of changes in plan net position are fairly stated in all material respects in relation to the financial statements taken as a whole.

*Baker Gilly Viechow Krause, LLP*

Madison, Wisconsin  
May 6, 2013

# **Modesto Irrigation District Management's Discussion and Analysis Years ended December 31, 2012 and 2011 (Unaudited)**

---

## **Overview**

The following management discussion and analysis of Modesto Irrigation District (District) provides an overview of the financial activities and transactions for fiscal years 2012 and 2011 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.

## **2012 District Changes**

- In January 2012 management made the decision to include the fiduciary funds in the District statements. Fiduciary funds are amounts that are held in trust and managed by the District and include the basic and supplemental retirement plans. The fiduciary statements utilize the accrual basis of accounting, similar to that used by the District for the Enterprise Fund.
- The District implemented GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective January 1, 2012. The standard created two new categories on the balance sheet, Deferred Outflows of Resources and Deferred Inflows of Resources. The Deferred Outflows include the unrealized loss on derivatives classified as effective per GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*. Deferred Outflows were formally included in both the non-current and current assets.

## **Financial Reporting**

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

## **Explanation of Financial Statements**

District financial statements include a Balance Sheet; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows, Statement of Plan Net Position, and Statement of Changes in Plan Net Position.

## **Balance Sheet:**

The Balance Sheet provides information about assets, liabilities, and equity of the District at a specific point in time. Assets are things the District owns that have value and can either be sold or used by the District to produce products or services that can be sold. Assets include power generation plants, vehicles and equipment, inventory, cash and investments, and customer accounts receivable.

Liabilities are amounts of money that the District owes to others. This includes debt, money owed to suppliers for materials, payroll, and taxes owed to other governmental agencies.

Equity or Net Position are the funds that will be left if the District sold all of its assets and paid off all of its liabilities.

## **Statement of Revenues, Expenses and Changes in Net Position:**

The Statement of Revenues, Expenses and Changes in Net Position is more commonly known as the Income Statement. This statement provides information regarding the District's operations including revenue earned and expenses incurred over a one year period. The "bottom line" of the statement shows the District's end of year net position.

**Modesto Irrigation District  
Management's Discussion and Analysis  
Years ended December 31, 2012 and 2011  
(Unaudited)**

---

**Statement of Cash Flows:**

The Statement of Cash Flow reports the District's inflows and outflows of cash. This report provides management with information concerning cash on hand and the ability to pay expenses and purchase assets.

A cash flow statement reflects changes over time rather than absolute dollar amounts at a point in time. The bottom line of the cash flow statement shows the net increase or decrease in cash for the period. Cash flow statements are divided into three activities: (1) operating activities; (2) investing activities; and (3) capital financing activities.

Operating Activities – analyzes the cash flow from operational activities (Operating Income and Expenses). This section of the cash flow statement reconciles the operating income to the actual cash MID received from or used in its operating activities. To facilitate this, the operating income is adjusted for any non-cash items (depreciation expenses) and any cash that was used or provided by other operating assets and liabilities.

Investing Activities – reflects the cash flow from all investing activities including purchases or sales of investment securities.

Capital Financing Activities – shows the cash flow from all financing activities. Typical sources of cash flow include funds received from borrowings, paying back debt service, and the purchase of capital assets.

**Statement of Plan Net Position**

The Statement of Plan Net Position (Balance Sheet) reports the financial resources available for future pension and other retirement benefits.

**Statement of Changes in Plan Net Position**

The Statement of Changes in Plan Net Position (Income Statement) reflects the additions and deductions and net increase (decrease) in net position held in trust for pension benefits.

**Modesto Irrigation District  
Management's Discussion and Analysis  
Years ended December 31, 2012 and 2011  
(Unaudited)**

---

The following is a comparative financial summary for years ending December 31, 2012, 2011, and 2010 respectively.

**Financial Summary**

**Balance Sheet  
(\$ in millions)**

	December 31, <u>2012</u>	December 31, <u>2011</u>	December 31, <u>2010</u>	Change from <u>2011 to 2012</u>
<b>Assets and deferred outflows</b>				
Utility plant, net	\$ 728.7	\$ 722.3	\$ 699.4	\$ 6.4
Other noncurrent assets and investments	213.4	200.8	231.2	12.6
Current assets	122.1	120.1	113.8	2.0
Deferred outflows of resources	<u>36.3</u>	<u>46.8</u>	<u>27.8</u>	<u>(10.5)</u>
<b>Total Assets and deferred outflows</b>	<b><u>\$ 1,100.5</u></b>	<b><u>\$ 1,090.0</u></b>	<b><u>\$ 1,072.2</u></b>	<b><u>\$ 10.5</u></b>
<b>Liabilities and Net Position</b>				
Long-term debt	\$ 774.7	\$ 812.2	\$ 836.5	\$ (37.5)
Current liabilities	77.0	76.1	79.6	0.9
Noncurrent liabilities	152.2	152.1	135.3	0.1
Net position				
Net investment in capital assets	(6.0)	(4.7)	6.2	(1.3)
Unrestricted	<u>102.6</u>	<u>54.3</u>	<u>14.6</u>	<u>48.3</u>
<b>Total Liabilities And Net Position</b>	<b><u>\$ 1,100.5</u></b>	<b><u>\$ 1,090.0</u></b>	<b><u>\$ 1,072.2</u></b>	<b><u>\$ 10.5</u></b>

**Income Statement  
(\$ in millions)**

	December 31, <u>2012</u>	December 31, <u>2011</u>	December 31, <u>2010</u>	Change from <u>2011 to 2012</u>
<b>Revenue, Expenses and Changes in Net Position</b>				
Operating revenues	\$ 389.2	\$ 370.9	\$ 342.1	\$ 18.3
Operating expenses	<u>(316.0)</u>	<u>(315.5)</u>	<u>(317.1)</u>	<u>(0.5)</u>
Operating income (loss)	73.2	55.4	25.0	17.8
Investment and other income	10.8	12.5	11.0	(1.7)
Interest expense	(41.5)	(44.4)	(43.2)	2.9
Other non-operating income, net	<u>4.5</u>	<u>5.3</u>	<u>5.4</u>	<u>(0.8)</u>
Change in net position	<u>47.0</u>	<u>28.8</u>	<u>(1.8)</u>	<u>18.2</u>
Net position, beginning of year	<u>49.6</u>	<u>20.8</u>	<u>22.6</u>	<u>28.8</u>
<b>Net Position, End of Year</b>	<b><u>\$ 96.6</u></b>	<b><u>\$ 49.6</u></b>	<b><u>\$ 20.8</u></b>	<b><u>\$ 47.0</u></b>

**Modesto Irrigation District  
Management's Discussion and Analysis  
Years ended December 31, 2012 and 2011  
(Unaudited)**

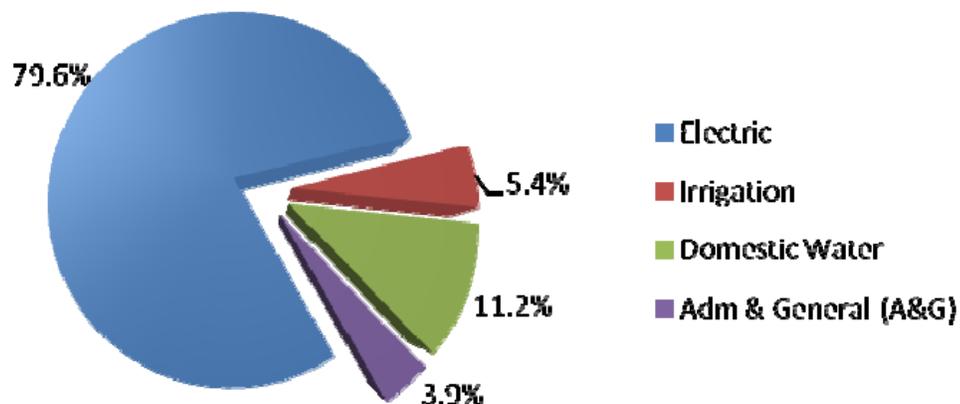
---

**ASSETS and DEFERRED OUTFLOWS**

***Utility Plant, net***

MID has invested approximately \$728.7 million in utility plant assets net of accumulative depreciation. MID transferred approximately \$66.1 million of assets from construction in progress to utility plant in service in 2012 offset by sale of obsolete equipment. The following chart shows the breakdown of Utility Plant, net by category at December 31, 2012.

**Plant In Service Percentages**



Utility plant increased by \$6.4 million in 2012. The 2012 increase is due to the completion of a jointly developed base load electric plant located in Lodi, California, offset by depreciation.

Utility plant increased by a net of \$22.9 million in 2011 over 2010. The 2011 increase is due to completion on the reciprocating engine peaking plant project and continued work on a jointly developed base load plant.

***Other non-current assets and investments***

Other non-current assets and investments increased \$12.6 million in 2012. The increase is the net result of reductions in restricted cash investments or bond proceeds and an increase in unrestricted investments. The increase in unrestricted investments is the result of operating income in 2012 from the capital improvement surcharge and the greenhouse gas surcharge.

Other non-current assets and investments decreased \$30.4 million in 2011 over 2010. The decrease is primarily due to the use of the 2010 A&B project funds. The bond funds were used for the reciprocating engine peaking plant project and a jointly developed base-load plant.

**Modesto Irrigation District  
Management's Discussion and Analysis  
Years ended December 31, 2012 and 2011  
(Unaudited)**

---

***Current assets***

Current assets increased by \$2.0 million in 2012. The increase is the net result of increases to cash and cash equivalents – unrestricted offset by reductions in cash and cash equivalents – restricted. This movement reflects the increase in unrestricted cash from operational income. Changes included an increase of \$4.5 million in material and supplies due to the addition of greenhouse gas allowances required by the California Air Resource Board cap-and-trade program. This increase was offset by reductions in customer accounts receivable and other current assets.

Current assets increased from 2010 to 2011 by \$6.3 million. The increase is primarily attributed to an increase in unrestricted cash of \$4.8 million and an increase in customer accounts receivable of \$4.2 million due to a rate increase that went into effect at the beginning of the year.

***Deferred Outflows***

In 2012 deferred cash flow hedges decreased by \$10.5 million. The decrease in deferred cash flow hedges reflects an increase in value of the derivatives held by the District.

**LIABILITIES AND NET POSITION**

***Long-term debt***

Long-term debt decreased by \$37.5 million in 2012. This decrease was due to scheduled debt service payments and the refunding of 2003A and 2004A COP bonds with the 2012A&B Revenue Bonds.

Long-term debt decreased by \$24.3 million from 2010 to 2011. This decrease was primarily due to scheduled debt service payments.

***Current liabilities***

Current liabilities remained relatively flat with a slight increase of \$0.9 million in 2012 due to an increase to accounts payable for services and supplies.

Current liabilities decreased by \$3.5 million in 2011 over 2010 primarily due to a decrease in construction accounts payable related to the completion of construction on the reciprocating engine peaking plant.

***Non-current liabilities***

Non-current liabilities increased \$0.1 million in 2012 due to unamortized bond premiums for the 2012 A&B Revenue Bonds offset by a decrease in liabilities for equity in M-S-R.

Non-current liabilities increased \$16.8 million in 2011 due to a \$15 million increase in the liability for derivative financial instruments with maturities greater than one year due to changes in fair value.

***Net position***

In 2012, the District's net investment in capital assets decreased by \$1.3 million primarily due to the refunding of debt in the current year.

Unrestricted net position increased by \$48.3 million due to the decrease in capital net assets offset by increases in revenue for the current year.

In 2011, the District's net investment in capital assets decreased by \$10.9 million primarily due to the refunding of debt in the current year.

Unrestricted net assets increased by \$39.7 million due to the decrease in capital net assets offset by increases in revenue for the current year.

**Modesto Irrigation District  
Management's Discussion and Analysis  
Years ended December 31, 2012 and 2011  
(Unaudited)**

---

**CHANGES IN NET POSITION**

**Operating Revenues**

**Changes from 2011 to 2012**

In 2012 operating revenue increased by \$18.3 million or approximately 4.9%.

Retail electric revenue increased by \$15.9 million or approximately 4.77%. Retail consumption has remained relatively constant with changes in revenue due to new rates to capture costs related to capital improvement and green house gas allowances.

Wholesale electric revenue had a slight decrease of \$30 thousand due to the low cost of power resulting in a reduced demand for wholesale power.

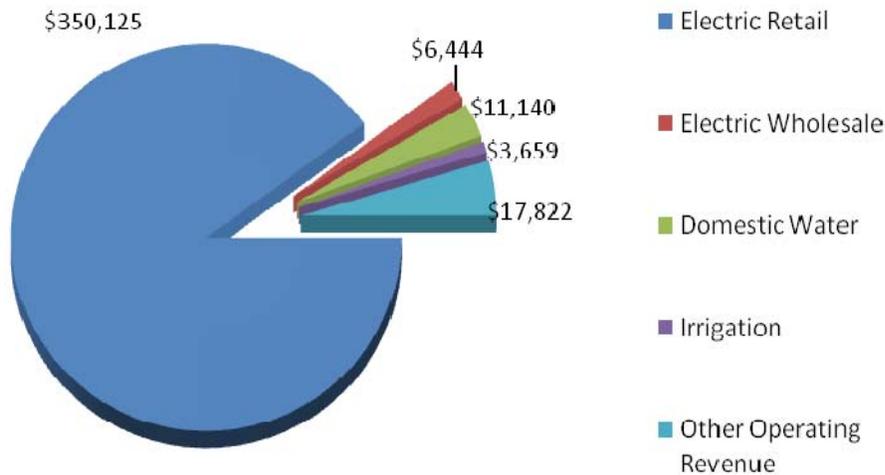
Water revenues from both Domestic and Irrigation remained relatively constant with a slight decrease in revenue for both based on demand. Domestic Water revenue decreased by \$227 thousand and Irrigation Water decreased by \$105 thousand or 2% and 2.8% respectively.

Equity in Joint Power Authorities increased \$4.3 million for 2012.

Other operating income decreased by \$1.6 million.

The following is the District's 2012 operating revenue (**dollars are in thousands**):

**2012 Operating Revenue**



**Modesto Irrigation District  
Management's Discussion and Analysis  
Years ended December 31, 2012 and 2011  
(Unaudited)**

---

**Changes from 2010 to 2011**

In 2011 operating revenues increased by 28.8 million or approximately 8.4%.

Retail electric revenue increased by \$26.8 million or approximately 8.7%. The District implemented a seven percent (7%) rate change effective January 1, 2011. Retail consumption has remained relatively constant when compared to the prior year.

Wholesale electric revenue decreased by \$2.1 million due to a settlement with the California Independent System Operator Corporation (ISO) that offset current year wholesale electric revenues.

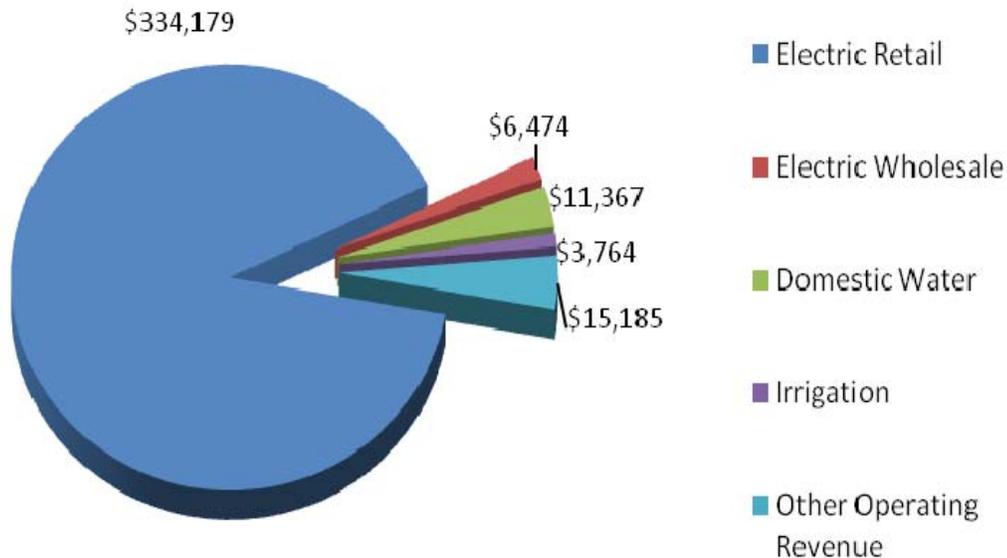
Water revenues from agricultural water remained relatively constant with a slight decrease in revenue of \$0.1 million from 2010. Domestic wholesale water revenue increased \$0.5 million.

Equity in Joint Power Authorities increased \$0.9 million for 2011.

Other operating income increased by \$2.8 million.

The following is the District's 2011 operating revenue (**dollars are in thousands**):

## 2011 Operating Revenue



**Modesto Irrigation District  
 Management’s Discussion and Analysis  
 Years ended December 31, 2012 and 2011  
 (Unaudited)**

---

**Operating Expenses**

**Changes from 2011 to 2012**

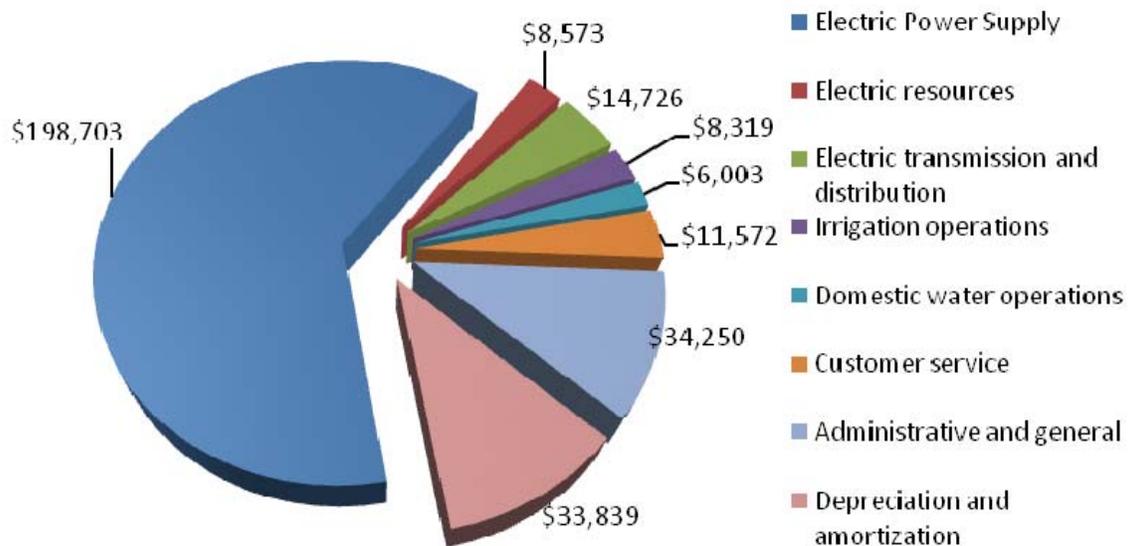
Total operating expenses reflects an increase of \$0.5 million in 2012. The increase is primarily the result of decreased power generation costs offset by increased costs in operations and maintenance.

Purchased power and power generation expenses for 2012 reflect a net increase of \$168 thousand, \$3.927 million purchase power increase offset by a \$3.759 million decrease in power generation expenses. The change is mainly due to availability and pricing of purchase power versus power generation.

Both Irrigation and Domestic Water operations remained relatively flat with a slight reduction of \$27 thousand in costs for Irrigation and a \$444 thousand increase in costs for Domestic Water.

The following depicts the 2012 power supply and other operation expenses (**dollars are in thousands**):

**2012 Operating Expenses**



**Modesto Irrigation District  
 Management's Discussion and Analysis  
 Years ended December 31, 2012 and 2011  
 (Unaudited)**

---

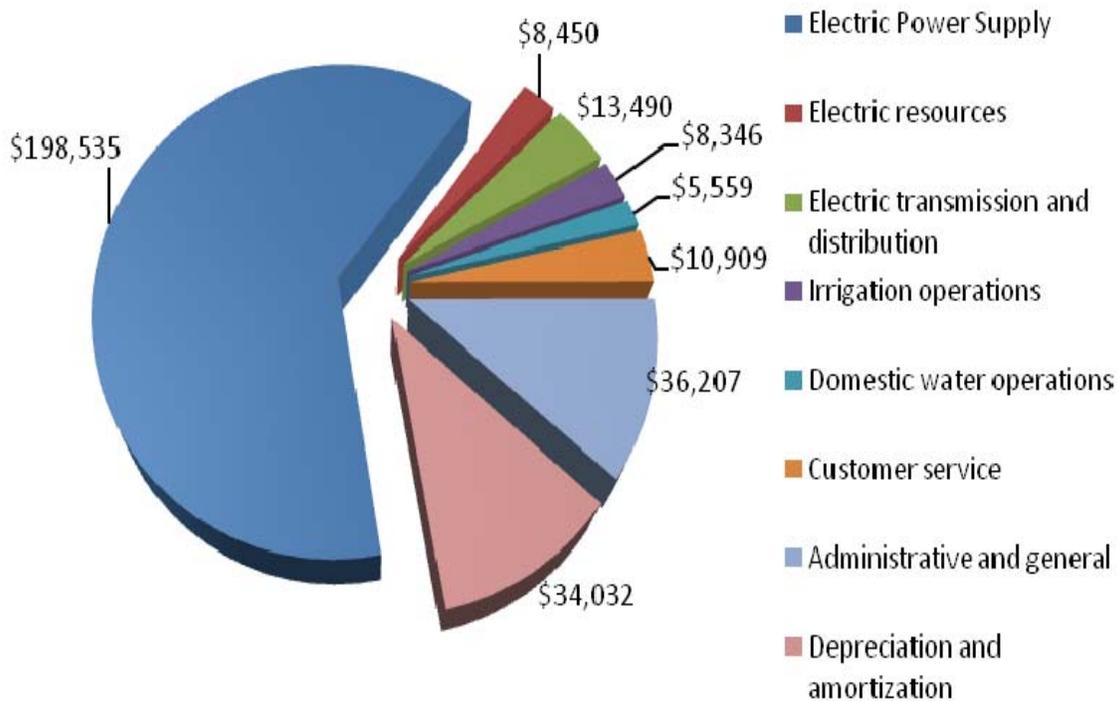
**Changes from 2010 to 2011**

Total operating expenses reflects a decrease of \$1.6 million in 2011. The decrease was primarily the result of decreased power costs, offset by increased costs in overhead maintenance.

Purchased power and power generation costs for 2011 reflects a net decrease of \$7.5 million, \$9.4 million purchase power decrease and a \$1.8 million increase in power generation expenses. The change is mainly due to the new reciprocating engine peaking plant that was placed into service in 2011.

The following depicts the 2011 power supply and other operation expenses (**dollars are in thousands**):

**2011 Operating Expenses**



**Modesto Irrigation District  
Management's Discussion and Analysis  
Years ended December 31, 2012 and 2011  
(Unaudited)**

---

**Non-Operating Revenue (Expenses)**

***Investment Income***

Investment and other income decreased in 2012 by \$1.7 million due to reductions in capitalized interest charged to projects offset by interest on investments.

Investment and other income increased in 2011 by \$1.5 million due to interest capitalized on the reciprocating engine peaking plant and the jointly developed base load plant.

***Interest expense***

Interest expense for 2012 decreased \$2.9 million over the prior year due to reductions in principal amounts and refinancing current debt a lower rates.

Interest expense for 2011 increased \$1.8 million over the prior year primarily as a result of interest payments made for the full year on the 2010 A&B bonds

# MODESTO IRRIGATION DISTRICT

## BALANCE SHEETS As of December 31, 2012 and 2011

(Dollars in Thousands)

<b>ASSETS AND DEFERRED OUTFLOWS</b>	2012	2011
<b>CAPITAL ASSETS</b>		
Plant in service	\$ 1,110,219	\$ 1,045,417
Less accumulated depreciation	(483,410)	(450,986)
Plant in service - net	626,809	594,431
Construction work in progress	101,864	127,918
Total Capital Assets	728,673	722,349
 <b>OTHER ASSETS AND INVESTMENTS</b>		
Cash and investments - restricted	71,647	105,377
Investments - unrestricted	124,125	82,776
Interest receivable - restricted	336	449
Capital improvement fund	6,610	-
Unamortized debt issuance costs	7,257	7,843
Equity interest in TANC	2,511	2,422
Other long-term assets	951	1,891
Total Other Assets and Investments	213,437	200,758
 <b>CURRENT ASSETS</b>		
Cash and cash equivalents - unrestricted	49,581	48,217
Cash and cash equivalents - restricted	10,087	8,721
Interest receivable - unrestricted	905	887
Customer accounts receivable, net	33,916	35,726
Wholesale power receivables, net	172	22
Materials and supplies	14,438	9,957
Prepayments	3,209	4,293
Other current assets, net	9,836	12,318
Total Current Assets	122,144	120,141
 <b>TOTAL ASSETS</b>	1,064,254	1,043,248
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred cash flow hedges - unrealized loss on derivatives	36,264	46,796
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	\$ 1,100,518	\$ 1,090,044

<b>LIABILITIES AND NET POSITION</b>		
	<u>2012</u>	<u>2011</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	\$ 774,710	\$ 812,240
Unamortized premium	30,901	19,058
Unamortized debt discount	(3,656)	(3,992)
Unamortized loss on advance refunding	(14,541)	(12,246)
Unearned revenue and other liabilities	47,104	41,707
Derivative financial instruments	34,431	38,800
Equity interest in M-S-R	57,960	68,778
Total Noncurrent Liabilities	<u>926,909</u>	<u>964,345</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and other accruals	36,656	29,318
Current liabilities payable from restricted assets		
Current portion of long-term debt	25,275	24,405
Interest payable	13,257	14,376
Derivative financial instruments maturing within one year	1,833	7,996
Total Current Liabilities	<u>77,021</u>	<u>76,095</u>
<b>NET POSITION</b>		
Net investment in capital assets	(5,958)	(4,727)
Unrestricted	102,546	54,331
Total Net Position	<u>96,588</u>	<u>49,604</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 1,100,518</u>	<u>\$ 1,090,044</u>

See accompanying notes to financial statements.

## MODESTO IRRIGATION DISTRICT

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2012 and 2011

(Dollars in Thousands)

	2012	2011
<b>OPERATING REVENUES</b>		
Residential, commercial and industrial electric	\$ 350,125	\$ 334,179
Wholesale electric	6,444	6,474
Domestic water	11,140	11,367
Irrigation water	3,659	3,764
Equity in net income of public power agencies	11,449	7,126
Other operating income, net	6,373	8,059
Total Operating Revenues	389,190	370,969
 <b>OPERATING EXPENSES</b>		
Purchased power	161,763	157,836
Power generation	36,940	40,699
Electric resources	8,573	8,450
Electric transmission and distribution	14,726	13,490
Irrigation operations	8,319	8,346
Domestic water operations	6,003	5,559
Customer account service	11,572	10,909
Administrative and general	34,250	36,207
Depreciation and amortization	33,839	34,032
Total Operating Expenses	315,985	315,528
 <b>OPERATING INCOME</b>	 73,205	 55,441
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	5,649	4,691
Interest expense	(41,627)	(43,263)
Capitalized interest	4,826	7,038
Amortization of debt discount and issuance costs	(798)	(867)
Amortization of premium	3,222	1,690
Amortization of loss on refunding	(2,274)	(2,004)
Other non-operating income, net	4,471	5,259
Total Nonoperating Expenses	(26,531)	(27,456)
 Change in Net Position Before Contributions	 46,674	 27,985
 <b>CAPITAL CONTRIBUTIONS</b>	 310	 855
 <b>CHANGE IN NET POSITION</b>	 46,984	 28,840
NET POSITION - Beginning of Year	49,604	20,764
 <b>NET POSITION - END OF YEAR</b>	 \$ 96,588	 \$ 49,604

See accompanying notes to financial statements.

## MODESTO IRRIGATION DISTRICT

### STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2012 and 2011

(Dollars in Thousands)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 393,233	\$ 366,332
Payments to suppliers for goods and services	(243,718)	(255,148)
Payments to employees for services	(34,534)	(33,787)
Net Cash Flows Provided by Operating Activities	114,981	77,397
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Net proceeds (payments) from issuance of long-term debt obligations	(2,069)	9,542
Repayment of long-term debt	(24,405)	(22,913)
Debt issuance costs	(1,042)	(1,109)
Construction expenditures	(35,128)	(50,678)
Interest paid	(41,270)	(43,422)
Contributions received for construction	148	802
Net Cash Flows Used in Capital Financing Activities	(103,766)	(107,778)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(319,540)	(176,845)
Investments sold and matured	305,974	186,599
Interest received	5,744	5,017
Net Cash Flows Provided by (Used in) Investing Activities	(7,822)	14,771
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	3,393	(15,610)
CASH AND CASH EQUIVALENTS, Beginning of Year	54,286	69,896
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 57,679</b>	<b>\$ 54,286</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Accretion of capital appreciation bonds	\$ -	\$ (777)
Noncash contributions by developers	\$ 162	\$ 53
Capitalized interest	\$ 4,826	\$ 7,038
Amortization	\$ 150	\$ (1,181)
Change in valuation of derivative financial instruments	\$ 2,328	\$ (17,808)
Long-term debt advance refunded	\$ (105,110)	\$ (174,159)

	<u>2012</u>	<u>2011</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 73,205	\$ 55,441
Adjustments to reconcile operating income to net cash flows provided by operating activities		
Other non-operating income	4,471	5,259
Depreciation and amortization	33,839	34,032
Undistributed income from public power agencies	(10,907)	(7,127)
Change in operating assets and liabilities		
Customer accounts receivable, net	1,810	(4,208)
Wholesale power receivables, net	(150)	3,629
Other current assets, net	3,422	(346)
Materials and supplies	(4,481)	330
Prepayments	1,084	(1,471)
Accounts payable and other accruals	7,291	(6,298)
Unearned revenue and other liabilities	5,397	(1,844)
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 114,981</u>	<u>\$ 77,397</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS</b>		
Cash and cash equivalents - unrestricted	\$ 49,581	\$ 48,217
Cash and cash equivalents - restricted	10,087	8,721
Investments - unrestricted	124,125	82,776
Cash and investments - restricted	71,647	105,377
Capital improvement fund	6,610	-
Total Cash and Investments	262,050	245,091
Less: Noncash equivalents	(204,371)	(190,805)
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 57,679</u>	<u>\$ 54,286</u>

See accompanying notes to financial statements.

## MODESTO IRRIGATION DISTRICT

### STATEMENTS OF PLAN NET POSITION As of December 31, 2012 and 2011

(Dollars in Thousands)

<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
<b>CASH AND CASH EQUIVALENTS</b>	\$ 26,669	\$ 26,900
<b>RECEIVABLES</b>		
Accrued interest	392	490
Dividends	127	134
Receivable from Modesto Irrigation District	19	22
Employer contributions	2,509	-
<b>INVESTMENTS AT FAIR VALLUE</b>		
U.S. government obligations	12,337	11,026
Fixed income securities	29,320	30,560
Publicly traded domestic stocks	126,670	109,454
Publicly traded international stocks	33,996	27,466
Real estate investment trust	11,512	9,161
Hedge funds	18,458	17,269
Total Assets	<u>262,009</u>	<u>232,482</u>
<b>LESS: ACCRUED LIABILITIES</b>	<u>533</u>	<u>710</u>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 261,476</u>	<u>\$ 231,772</u>

## MODESTO IRRIGATION DISTRICT

### STATEMENTS OF CHANGES IN PLAN NET POSITION As of December 31, 2012 and 2011

*(Dollars in Thousands)*

	2012	2011
<b>ADDITIONS</b>		
Additions to net position attributed to:		
Investment income (loss):		
Net appreciation (depreciation) of investments	\$ 27,298	\$ (7,146)
Dividend income	1,954	1,367
Interest income	2,167	3,086
Investment expenses	(996)	(890)
Net investment income (loss)	30,423	(3,583)
Contributions		
Employee contributions	1,710	1,668
Employer contributions	13,059	12,630
Total Contributions	14,769	14,298
Total Additions	45,192	10,715
<b>DEDUCTIONS</b>		
Deductions from net position attributed to:		
Distributions to plan members and beneficiaries	15,334	14,039
Administrative expenses	117	134
Consultant and professional services expenses	30	30
Forfeitures	8	-
Total Deductions	15,489	14,203
<b>Net increase (decrease) in net position held in trust for pension benefits</b>	29,703	(3,488)
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	231,773	235,260
End of year	\$ 261,476	\$ 231,772

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(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. 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.

### ***REPORTING ENTITY***

As required by accounting principles generally accepted in the United States of America, these financial statements present the District, its component unit, the Modesto Irrigation District Financing Authority (the "Authority"), and the following fiduciary funds (collectively referred to as the "the Plan"):

Retirement System Basic Retirement Plan (a pension trust fund) is a single-employer noncontributory defined benefit plan for all eligible District employees and Directors.

Retirement System Supplemental Retirement Plan (a pension trust fund) is a defined contribution plan and serves as partial or full replacement of social security for participants, depending upon date of employment.

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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

### *MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION*

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. 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).

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The District implemented this standard effective January 1, 2012.

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.

### *DERIVATIVE FINANCIAL INSTRUMENTS*

The District's Basic Retirement Plan has foreign currency forward contracts, which meet the definition of derivative financial instruments. The derivative instruments are recorded on the statements of plan net position at fair market value, with a corresponding charge to appreciation (depreciation) in the statement of changes in position net position. Fair market value is based on quoted market prices. The District's Basic Retirement Plan's derivative transactions are designed to reduce foreign currency exchange risk.

The District's derivative instruments are discussed in Note 8.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

### ***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. The District has an allowance for doubtful accounts for its electric retail customers of \$3,948 and \$3,508 as of December 2012 and 2011, respectively. An allowance for doubtful accounts related to miscellaneous receivables was \$3,562 and \$600 as of December 31, 2012 and 2011, respectively. The District's net expense relating to doubtful accounts for all accounts receivable is included in the accompanying statements of revenues, expenses, and changes in net position as an offset to operating revenues. The District recorded bad debt expense of \$3,417 and \$718 at December 31, 2012 and 2011, respectively.

### ***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.

The balance includes greenhouse gas allowances used for generation. These are valued at the lower of cost or market utilizing the average cost method and charged to generation expense when used. Any allowances held for sale are recorded at fair value at year end.

### ***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.

### ***CAPITAL IMPROVEMENT FUND***

The District bills each customer a per kilowatt-hour capital infrastructure surcharge. These funds are segregated to pay for future capital improvements.

### ***PREPAYMENTS***

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

### ***OTHER CURRENT AND LONG-TERM ASSETS***

The balance represents miscellaneous receivables and deposits. \$1,940 and \$2,888 of the 2012 and 2011 balances, respectively, are receivables from the City of Modesto for their portion of a roof replacement project for the domestic water treatment plant. Approximately \$951 and \$1,891 of the 2012 and 2011 balances, respectively, is not expected to be collected within one year.

### ***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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

### ***CAPITAL ASSETS*** (cont.)

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 District 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 District plant assets are capitalized at a rate based on the District's borrowings related to that construction.

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 unearned revenues. The unearned 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 unearned 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. The District recorded unearned revenues from the City of \$28,960 and \$23,297 in 2012 and 2011, respectively.

Other liabilities include the pension and OPEB obligations, customer meter deposits, power cost true-ups, potential rate refunds, arbitrage liability, 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, 2012 and 2011 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 2012 and 2011 for this obligation in the amount of \$178 and \$169, respectively. This amount is included under Unearned Revenue and Other Liabilities.

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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

### ***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.

### ***NET POSITION***

GASB No. 34 requires the classification of net position into three components — net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

*Net investment in capital assets* — This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* — this component of net position 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 position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets”.

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 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, 2012 and 2011, unbilled revenues of \$18,692 and \$17,942, respectively, 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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

### *REVENUES AND EXPENSES* (cont.)

#### *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 and 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 position.

### *EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS*

The GASB has approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; and Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. Application of these standards may restate portions of these financial statements.

### *COMPARATIVE DATA*

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

---

## 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 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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## **NOTE 3 – CASH AND INVESTMENTS (cont.)**

---

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 \$250 for time and savings accounts (including NOW accounts), \$250 for interest-bearing demand deposit accounts, and unlimited for noninterest bearing transaction accounts through December 31, 2012. On January 1, 2013, the temporary unlimited coverage for noninterest bearing transaction accounts expired. Therefore, demand deposit amounts (interest-bearing and noninterest bearing) are insured for a total of \$250 beginning January 1, 2013. In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250 for the combined amount of all deposit 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 years 2012 and 2011.

The Plan investment policies are governed primarily by the "Prudent Person Rule" which restricts the Plan's investments to only those securities which would be selected by a person of prudence, diligence and intelligence in the management of his or her own affairs, giving due consideration to safety or principal and income. The Plan, under the guidelines of its investment policies, is authorized to invest its cash in various financial instruments, including cash and equivalents, domestic equities, international equities, convertible securities, bankers acceptances, commercial paper, certificates of deposit, repurchase and reverse repurchase agreements, financial futures, financial option contracts, medium term notes, corporate bonds, shares issued by diversified management companies, hedge funds, and deposits with the LAIF.

The Plan's investment policy and guidelines are established by and may be amended by the District's Retirement Committee (the "Committee") and the District's Board of Directors. The Committee is responsible for overseeing the investment management of the Plan. This includes, but is not limited to, reviewing and evaluating investment activities regularly to assure that the Plan's investment policy and guidelines are followed.

The Plan's investment policy includes restrictions for investments related to maximum amounts invested as a percentage of total portfolios, with a single issuer, and within market sectors and styles, minimum market capitalization, maximum maturities, and minimum credit ratings.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 3 – CASH AND INVESTMENTS (cont.)

---

### *DISTRICT CASH AND INVESTMENTS (EXCLUSIVE OF THE FIDUCIARY FUNDS)*

The following disclosures relate to the District, exclusive of the fiduciary funds.

#### **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, 2012 and 2011, \$0 and \$2,805 of the District's bank balances are known to be individually exposed to custodial credit risk, respectively.

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.

As of December 31, 2012 and 2011, the District's investments were exposed to custodial credit risk as follows:

Neither insured nor registered and held by the counterparty's trust department or agent in the District's name

	2012	2011
US Agencies Implicitly Guaranteed	\$ 104,341	\$ 62,565
Corporate Medium Term Notes	38,327	30,092
Commercial Paper	2,999	-
U.S. Treasury Notes	29,646	-
Totals	<u>\$ 175,313</u>	<u>\$ 92,657</u>

The District's investment policy addresses this risk. All securities owned by the District shall be held in safekeeping by a third party custodian, acting as agent for the District under the terms of a custody agreement.

#### **CREDIT RISK**

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

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 3 – CASH AND INVESTMENTS (cont.)

#### *DISTRICT CASH AND INVESTMENTS (EXCLUSIVE OF THE FIDUCIARY FUNDS) (cont.)*

#### *CREDIT RISK (cont.)*

As of December 31, 2012 and 2011, the District's investments were rated as follows:

Investment Type	Standard & Poors	
	2012	2011
Commercial Paper	AA+	n/a
LAIF	NR	NR
Money Market Mutual Funds	NR	NR
Federal Farm Credit Bank Notes	AA+	AA+
Freddie Mac	AA+	AA+
Federal Home Loan Bank Bonds	AA+	AA+
Fannie Mae	AA+	AA+
Corporate Medium Term Note – Lehman Brothers	NR	NR
Corporate Medium Term Notes – Other	BBB- - AA+	BBB- - A+
Investment Agreement Contracts	NR	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 "A-1" or equivalent for 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, 2012 and 2011, the District's investment portfolio was concentrated as follows:

Investment Type	Percentage of Portfolio	
	2012	2011
Guaranteed Investment Contracts:		
Trinity Funding Corporation	-	20%
FSA Capital Management Services	4%	5%
Natixis Funding Corporation	5%	12%
IXIS Funding Corporation	2%	-
Fannie Mae	20%	14%
Corporate Medium Term Notes	15%	13%
Freddie Mac	10%	7%

The District's investment policy addresses this risk and places limits on the amounts invested in specific types of investments.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 3 – CASH AND INVESTMENTS (cont.)

#### *DISTRICT CASH AND INVESTMENTS (EXCLUSIVE OF THE FIDUCIARY FUNDS) (cont.)*

##### **INTEREST RATE RISK**

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

As of December 31, 2012, the District's investments exposed to interest rate risk were as follows:

Investment Type	Fair Value	Investment Maturities in Years		
		Less than 1 Year	1 – 5 Years	Greater than 5 Years
Federal Home Loan Bank Bonds	\$ 1,953	\$ -	\$ 1,953	\$ -
Fannie Mae	51,183	5,034	46,149	-
Federal Farm Credit Bank Notes	24,996	-	24,996	-
Freddie Mac	26,209	-	22,181	4,028
Corporate Medium Term Notes	38,327	6,009	32,318	-
Commercial Paper	2,999	2,999	-	-
LAIF	39,577	39,577	-	-
Money Market Fund	18,062	18,062	-	-
U.S. Treasury Notes	29,646	25,466	4,180	-
<b>Totals</b>	<b>\$ 232,952</b>	<b>\$ 97,147</b>	<b>\$ 131,777</b>	<b>\$ 4,028</b>

As of December 31, 2011, the District's investments exposed to interest rate risk were as follows:

Investment Type	Fair Value	Investment Maturities in Years		
		Less than 1 Year	1 – 5 Years	Greater than 5 Years
Federal Home Loan Bank Bonds	\$ 5,045	\$ -	\$ 5,045	\$ -
Fannie Mae	33,356	-	33,356	-
Federal Farm Credit Bank Notes	8,017	-	8,017	-
Freddie Mac	16,147	-	16,147	-
Corporate Medium Term Notes	30,092	9,562	20,530	-
LAIF	36,212	36,212	-	-
Money Market Fund	12,064	12,064	-	-
<b>Totals</b>	<b>\$ 140,933</b>	<b>\$ 57,838</b>	<b>\$ 83,095</b>	<b>\$ -</b>

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.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 3 – CASH AND INVESTMENTS (cont.)

#### *FIDUCIARY FUND INVESTMENTS*

#### *CUSTODIAL CREDIT RISK*

#### **Deposits**

As of December 31, 2012 and 2011, \$2,591 and \$2,378, of the Plan's bank balances are known to be exposed to custodial credit risk, respectively.

The Plan's investment policy does not address this risk.

#### *CREDIT RISK*

As of December 31, 2012 and 2011, the Plan's investments were rated as follows:

Investment Type	Standard & Poors	
	2012	2011
Publicly Traded Domestic Stocks	NR	NR
Publicly Traded International Stocks	NR	NR
REIT	NR	NR
Hedge Funds	NR	NR
EFA Index Fund	NR	-
Asset Backed Securities	AAA - BB, n/a	AAA - BB
Commercial Mortgage Backed Securities	AA+ - BB-, n/a	AAA - CCC, n/a
Freddie Mac Pool	n/a	n/a
Fannie Mae Pool	n/a	n/a
International Fixed Income	-	AAA - AA+
Corporate Notes	AAA - B+, NR	AA+ - B-
Financials	AA+ - B-	-
Industrials	A+ - CCC	-
Private Placements	A+ - B-	A- - B+
Private Placements- Asset Backed	AAA, n/a	-
U.S. Government Treasury	n/a	AAA

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, the Plan limits investments in certain securities to those that meet or exceed certain minimum credit ratings established by nationally recognized rating agencies. Commercial paper must be rated at a minimum of A-1 and P-1 by Standard & Poor's and Moody's, respectively. Banker's acceptances and certificates of deposit must have been purchased from larger, well capitalized banks with a minimum of an A rating from one of the major rating agencies. Banker's acceptances must also be eligible for both purchases and discount by the Federal Reserve Bank. The pooled fund investments with LAIF are not rated.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 3 – CASH AND INVESTMENTS (cont.)

#### *FIDUCIARY FUND INVESTMENTS* (cont.)

##### **CONCENTRATION OF CREDIT RISK**

At December 31, 2012 and 2011, the Plan did not have any cash equivalent or investment balances, other than those issued or guaranteed by the U.S. Government, investments in mutual funds, external investment pools, hedge funds, and other pooled equity investments representing five percent or more of the Plan's net position.

##### **INTEREST RATE RISK**

As of December 31, 2012, the Plan's investments exposed to interest rate risk were as follows:

Investment Type	Fair Value	Investment Maturities in Years		
		Less than 1 Year	1 – 5 Years	Greater than 5 Years
Asset Backed Securities	\$ 1,299	\$ -	\$ 929	\$ 370
Commercial Mortgage Backed Securities	3,202	-	-	3,202
Freddie Mac Pool	1,847	-	-	1,847
Fannie Mae Pool	9,008	-	-	9,008
Financials	3,364	-	1,709	1,655
Industrials	6,513	31	1,895	4,587
Corporate Notes/Bonds	11,996	292	6,846	4,858
Private Placements	2,995	-	1,218	1,777
Private Placements-Asset Backed	204	-	-	204
U.S. Government Treasury	1,228	-	-	1,228
<b>Totals</b>	<b>\$ 41,656</b>	<b>\$ 323</b>	<b>\$ 12,597</b>	<b>\$ 28,736</b>

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 3 – CASH AND INVESTMENTS (cont.)

#### *FIDUCIARY FUND INVESTMENTS* (cont.)

#### *INTEREST RATE RISK* (cont.)

As of December 31, 2011, the Plan's investments exposed to interest rate risk were as follows:

Investment Type	Fair Value	Investment Maturities in Years		
		Less than 1 Year	1 – 5 Years	Greater than 5 Years
Asset Backed Securities	\$ 988	\$ -	\$ 493	\$ 495
Commercial Mortgage Backed Securities	4,220	-	-	4,220
Freddie Mac Pool	2,071	-	-	2,071
Fannie Mae Pool	7,558	-	-	7,558
International	1,852	228	-	1,624
Corporate Notes/Bonds	20,026	-	8,930	11,096
Private Placements	3,809	-	1,371	2,438
U.S. Government Treasury	1,063	-	-	1,063
<b>Totals</b>	<b>\$ 41,587</b>	<b>\$ 228</b>	<b>\$ 10,794</b>	<b>\$ 30,565</b>

The Plan has restrictions as to the maturities of some of the investments and has a formal policy that allocates investment to manage its exposure to fair value losses arising from increases in interest rates.

#### *FOREIGN CURRENCY RISK*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit denominated in a foreign currency.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

### NOTE 3 – CASH AND INVESTMENTS (cont.)

---

#### *FIDUCIARY FUND INVESTMENTS* (cont.)

#### *FOREIGN CURRENCY RISK* (cont.)

The Plan had investments in mutual funds which were exposed to foreign currency risk. The Plan's exposure to foreign currency risk in U.S. dollars as of December 31, 2012 and 2011 is summarized in the following table.

Currency by Investment and Fair Value	2012	2011
Australian Dollar	\$ 1,257	\$ 1,355
Brazilian Real	866	792
Canadian Dollar	562	409
Euro	6,084	4,986
British Pound	2,653	2,963
Hong Kong Dollar	63	49
Japanese Yen	4,220	4,187
Mexican Peso	351	410
New Zealand Dollar	596	849
Russian Ruble	308	-
Singapore Dollar	117	72
South Korean Won	210	275
Swedish Krona	210	161
Swiss Franc	928	826
Total Investment Fair Value	<u>\$ 18,425</u>	<u>\$ 17,334</u>

The Plan has restrictions relating to maximum amounts invested in certain non-U.S. investments, as a percentage of total portfolio, and with a single issuer. The Plan has a formal policy that allocates investments to manage its exposure to fair value losses arising from changes in currency exchange rates.

---

### NOTE 4 – RESTRICTED ASSETS

---

#### *DEBT RELATED 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 balance sheet 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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 4 – RESTRICTED ASSETS (cont.)

---

### *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.

### *REMEDATION FUND*

As a condition of the Natural Gas and Supply Agreement with the M-S-R Energy Authority, the District has established a fund to track proceeds received from the sale of gas delivered per the supply agreement. These proceeds will be used for future gas supply needs. There was no balance in this account in either 2012 or 2011.

	Carrying Value as of Year-end	
	2012	2011
Restricted Accounts		
Project fund	\$ 31,991	\$ 61,221
Reserve fund	38,778	43,290
Redemption fund	10,120	8,756
Domestic water and reserve contingency fund	845	831
Total Restricted Accounts	<u>\$ 81,734</u>	<u>\$ 114,098</u>

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### **NOTE 5 – CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for 2012 follows:

	Balance 1/1/12	Increases	Decreases	Balance 12/31/12
Capital assets, not being depreciated/amortized				
Land and land rights	\$ 32,267	\$ 2	\$ -	\$ 32,269
Intangibles assets, not being depreciated/amortized	5,262	-	-	5,262
Total Capital Assets Not Being Depreciated/Amortized	37,529	2	-	37,531
Capital assets being depreciated/amortized				
Intangible assets, being depreciated/ amortized	-	45,546	-	45,546
Electric system	785,671	18,500	92	804,079
Domestic water plant	108,774	-	-	108,774
Irrigation system	48,010	462	-	48,472
General and administrative facilities	65,433	1,718	1,334	65,817
Total Capital Assets Being Depreciated/Amortized	1,007,888	66,226	1,426	1,072,688
Total Capital Assets	1,045,417	66,228	1,426	1,110,219
Less: Accumulated depreciation/amortization	(450,986)	(33,839)	(1,415)	(483,410)
Construction in progress	127,918	40,012	66,066	101,864
Net Capital Assets	\$ 722,349	\$ 72,401	\$ 66,077	\$ 728,673

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### **NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)**

A summary of changes in capital assets for 2011 follows:

	Balance 1/1/11	Increases	Decreases	Balance 12/31/11
Capital assets, not being depreciated/amortized				
Land and land rights	\$ 28,400	\$ 3,867	\$ -	\$ 32,267
Intangibles assets, not being depreciated/amortized	1,333	3,929	-	5,262
Total Capital Assets Not Being Depreciated/Amortized	29,733	7,796	-	37,529
Capital assets being depreciated/amortized				
Electric system	702,333	83,502	(164)	785,671
Domestic water plant	108,705	69	-	108,774
Irrigation system	47,848	162	-	48,010
General and administrative facilities	63,721	2,766	(1,054)	65,433
Total Capital Assets Being Depreciated/Amortized	922,607	86,499	(1,218)	1,007,888
Total Capital Assets	952,340	94,295	(1,218)	1,045,417
Less: Accumulated depreciation/amortization	(418,145)	(34,023)	1,182	(450,986)
Construction in progress	165,219	56,941	(94,242)	127,918
Net Capital Assets	\$ 699,414	\$ 117,213	\$ (94,278)	\$ 722,349

### **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, 2012 and 2011:

	2012	2011
M-S-R Public Power Agency	\$ (57,960)	\$ (68,778)
Transmission Agency of Northern California (TANC)	\$ 2,511	\$ 2,422

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

### NOTE 6 – INVESTMENT IN PUBLIC POWER AGENCIES (cont.)

---

#### *M-S-R PUBLIC POWER AGENCY*

The District, the City of Santa Clara, and the City of Redding formed M-S-R Public Power Agency (Agency) 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., now known as Iberdrola Renewables, 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 2012 and 2011, the District incurred purchased power costs of \$58,823 and \$58,913, respectively, in connection with these M-S-R resources. At December 31, 2012 and 2011, the District had a payable of \$5,932 and \$5,571, respectively, to M-S-R for its proportionate share of project related expenditures.

Summarized financial information of the Agency is as follows at December 31:

	<u>2012</u>	<u>2011</u>
Total Assets	\$ <u>249,877</u>	\$ <u>256,312</u>
Total liabilities	\$ 365,795	\$ 393,867
Total net position	<u>(115,918)</u>	<u>(137,555)</u>
Total Liabilities and Net Position	\$ <u>249,877</u>	\$ <u>256,312</u>
Changes in Net Position During the Year	\$ <u>21,637</u>	\$ <u>12,972</u>

The long term debt of the Agency, which totals \$313,445 and \$337,335 at December 31, 2012 and 2011, respectively, is secured by a pledge and assignment of the net electric revenues of the Agency and are supported by take-or-pay commitments, which are an operating expense of the Participant's electric system. The District's portion of the Agency's principal and interest payments during the year were \$20,220 and \$21,156 for December 31, 2012 and 2011, respectively.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 6 – INVESTMENT IN PUBLIC POWER AGENCIES (cont.)

#### *M-S-R ENERGY AUTHORITY*

The District, the City of Santa Clara, and the City of Redding formed M-S-R Energy Authority (Authority) for the principal purpose to acquire, construct, maintain, operate and finance projects for the benefit of any one or more of the Members. On September 10, 2009, the Authority entered into a series of thirty-year prepaid gas contracts with Citigroup Energy, Inc., which are financed by non-recourse revenue bonds. The Authority also entered into matching Natural Gas Supply Agreements (“Supply Agreements”) whereby each member is obligated to purchase the natural gas from the Authority at a discount from the Index Price. The Supply Agreements will continue in effect until September 30, 2039, unless terminated earlier due to certain defaults, as set forth therein, or the termination of the matching prepaid gas contract. If the Authority fails on any day to deliver the quantity of natural gas required to be delivered pursuant to a Supply Agreement, the member will have no obligation for any of the natural gas supply that was not delivered as a result of such delivery default.

Billings to the members are designed to provide, over the life of the project, full recovery of costs as defined by the indenture and project contracts, and as prescribed by the Authority. Rates are structured to systematically provide for the current debt service requirements, operating costs and reserves. The net costs to be recovered from future participant billings consist primarily of timing differences related to the debt service requirements included in rates. In accordance with GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, certain income and expense amounts which would be recognized during the current time period are deferred and not included in the determination of income until such costs are recoverable through participant billings. Under the current rate structure, costs are expected to be recovered over the 30-year term of the Natural Gas Supply Agreement.

During 2012 and 2011, the District incurred purchased gas costs of \$4,492 and \$6,494, respectively, in connection with the Authority. At December 31, 2012 and 2011, the District had a payable of \$617 and \$578, respectively, for purchased gas and project related expenses.

Summarized financial information of the Authority is as follows at December 31:

	2012	2011
Total Assets	\$ 905,682	\$ 905,684
Total liabilities	\$ 905,682	\$ 905,684
Total net position	-	-
Total Liabilities and Net Position	\$ 905,682	\$ 905,684
Changes in Net Position During the Year	\$ -	\$ -

The long term debt of the Authority totaled \$901,620 at December 31, 2012 and 2011. The Authority did not make any principal payments in 2012 or 2011. The District's portion of the Authority's interest payments during the year were \$13,211 in 2012 and 2011.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

### NOTE 6 – INVESTMENT IN PUBLIC POWER AGENCIES (cont.)

---

#### *TRANSMISSION AGENCY OF NORTHERN CALIFORNIA (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 21.3% ownership interest in TANC. TANC is entitled to approximately 87% 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 kW. During 2012 and 2011, the District incurred transmission costs of \$14,773 and \$14,608, respectively, relating to these projects, which are included in purchased power expense in the accompanying statements of revenues, expenses and changes in net position. At December 31, 2012 and 2011, the District has a long-term payable of \$6,612 and \$6,858, respectively, to TANC relating primarily to certain non-cash expenses of TANC. This liability is included in unearned revenue and other liabilities in the accompanying 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 \$840 and \$100 in revenues from transmission sales in the 2012 and 2011, respectively.

Summarized unaudited financial information of TANC is as follows at December 31:

	2012 (unaudited)	2011 (unaudited)
Total Assets	\$ 450,348	\$ 463,090
Total liabilities	\$ 438,985	\$ 451,811
Total net position	11,363	11,279
Total Liabilities and Net Position	\$ 450,348	\$ 463,090
Changes in Net Position for 6 Months Ended	\$ 6	\$ 9

The long term debt of TANC (unaudited), which totals \$370,150 and \$396,059 at December 31, 2012 and 2011, respectively, is collateralized by a pledge and assignment of net revenues of each agency, supported by take-and-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. The District's portion of TANC's principal and interest payments during the year were \$9,232 and \$9,247 for December 31, 2012 and 2011, respectively.

#### *BALANCING AUTHORITY OF NORTHERN CALIFORNIA (BANC)*

The District and three other California municipal utilities formed BANC in 2009. BANC was formed to perform North American Electric Reliability Corporation (NERC) functions that would otherwise be performed by the BANC members or on their behalf.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

## **NOTE 6 – INVESTMENT IN PUBLIC POWER AGENCIES (cont.)**

### ***BALANCING AUTHORITY OF NORTHERN CALIFORNIA (BANC) (cont.)***

Summarized financial information of BANC is as follows at December 31:

	2012	2011
Total Assets	\$ <u>304</u>	\$ <u>159</u>
Total liabilities	\$ 304	\$ 159
Total net position	<u>-</u>	<u>-</u>
Total Liabilities and Net Position	\$ <u>304</u>	\$ <u>159</u>
Changes in Net Position During the Year	\$ <u>-</u>	\$ <u>-</u>

### ***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, 2012 and 2011 and for the years then ended is as follows:

	2012	2011
<b><i>Assets</i></b>		
Current assets	\$ 8,285	\$ 7,839
Other noncurrent assets	17,397	33,232
Debt service installment receivable, less current portion	221,169	210,208
Total Assets	<u>246,851</u>	<u>251,279</u>
<b><i>Deferred Outflows of Resources</i></b>	<u>32,190</u>	<u>34,518</u>
<b><i>Total Assets and Deferred Outflows of Resources</i></b>	<u>279,041</u>	<u>285,797</u>
<b><i>Liabilities and Net Position</i></b>		
Current liabilities	7,928	7,800
Derivative financial instruments	32,190	34,518
Long-term debt	238,887	242,650
Other noncurrent liabilities	36	829
Net position	<u>-</u>	<u>-</u>
Total Liabilities and Net Position	<u>279,041</u>	<u>285,797</u>
<b><i>Revenues and Expenses</i></b>		
Revenues:		
Debt service contributions	10,628	11,445
Interest income	511	661
Other non-operating income	1,426	1,426
Total Revenues	<u>12,565</u>	<u>13,532</u>
Interest expense	<u>(12,565)</u>	<u>(13,532)</u>
Change in net position	-	-
NET POSITION, Beginning of Year	<u>-</u>	<u>-</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

### NOTE 7 – LONG-TERM DEBT

---

#### *LONG-TERM DEBT*

The following bonds have been issued:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/12
2/26/98	1998D Domestic Water Bonds	9/1/22	4.75 – 5.50%	\$ 94,715	\$ 52,620
1/7/99	1999A Certificates of Participation Refunding Bonds	7/1/26	4.25 – 4.75	70,501	-
1/7/99	1999A Capital Appreciation Certificates – Accreted Interest	12/31/21	4.10 – 5.30	N/A	-
1/11/99	1999B Certificates of Participation Refunding Bonds	7/1/22	5.30	49,775	-
12/20/01	2001A Certificates of Participation Bonds	7/1/31	3.50 – 5.00	98,600	-
5/9/03	2003A Certificates of Participation Bonds	7/1/33	2.25 – 5.00	93,225	-
3/17/04	2004A Certificates of Participation Bonds	7/1/26	3.50 – 5.00	50,000	-
3/17/04	2004B Certificates of Participation Bonds	7/1/35	5.00 – 5.50	66,025	66,025
7/25/06	2006A Certificates of Participation Bonds	10/1/36	4.00 – 5.00	146,950	97,275
6/26/07	2007F Domestic Water Revenue Bonds	9/1/37	Index Rate	93,190	93,190
3/31/09	2009A Certificates of Participation	10/1/39	4.10 – 6.10	132,145	132,145
6/23/10	2010A Taxable Electric System Revenue Bonds	10/1/40	4.78 – 7.20	60,325	60,325
6/23/10	2010B Electric System Revenue Bonds	10/1/39	5.00	39,930	39,930
7/23/11	2011A Electric System Revenue Bonds	7/1/26	3.85 – 5.00	125,380	125,380
7/23/11	2011B Electric System Revenue Bonds	7/1/13	2.00	16,075	7,790
8/31/11	2011C Electric System Revenue Bonds	7/1/31	4.50-5.00	32,840	32,450
10/25/12	2012A Electric System Refunding Revenue Bonds	7/1/32	1.00-5.00	90,065	90,065
10/25/12	2012B Electric System Refunding Revenue Bonds	7/1/13	1.00	2,790	2,790

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 7 – LONG-TERM DEBT (cont.)

#### *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.

Interest earnings on tax exempt bond funds are subject to arbitrage rules of the Internal Revenue Service if interest earnings on the unspent tax exempt funds are greater than the stated bond yield on the tax exempt debt. As of December 31, 2012 and 2011, the District has recorded a liability of \$308 and \$1,102, respectively, for a potential arbitrage rebate to the IRS. Arbitrage rebates are due five years from the issuance date of the tax exempt debt.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, disclosures for pledged revenues are as follows:

<u>Electric System</u>	<u>2012</u>	<u>2011</u>
Principal and interest payments	\$ 56,228	\$ 56,306
Gross revenues	\$ 373,219	\$ 358,193
Total remaining principal and interest	\$ 1,111,036	\$ 1,184,717
Percent of future gross revenues	11%	12%
<u>Domestic Water System</u>		
Principal and interest payments	\$ 10,924	\$ 10,889
Gross revenues	\$ 17,163	\$ 18,580
Total remaining principal and interest	\$ 239,626	\$ 250,549
Percent of future gross revenues	56%	54%

The District is in compliance with required bond covenants.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 7 – LONG-TERM DEBT (cont.)

#### *LONG-TERM DEBT REPAYMENT*

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Subsidy</u>	<u>Total</u>
2013	\$ 25,275	\$ 40,418	\$ (1,425)	\$ 64,267
2014	24,690	39,422	(1,425)	62,687
2015	26,250	38,251	(1,425)	63,076
2016	26,855	36,968	(1,416)	62,407
2017	28,090	35,663	(1,377)	62,376
2018 - 2022	162,225	155,705	(6,190)	311,741
2023 - 2027	152,940	116,793	(5,722)	264,011
2028 - 2032	167,610	76,429	(5,722)	238,317
2033 - 2037	148,160	33,960	(4,285)	177,835
2038 - 2040	37,890	3,869	(852)	40,907
Total Requirements	<u>\$ 799,985</u>	<u>\$ 577,477</u>	<u>\$ (29,838)</u>	<u>\$ 1,347,624</u>

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions will be effective March 1, 2013 for qualified bonds including the District's 2010A series Bonds. Federal subsidies for these bonds will be reduced by 8.7% through the end of the federal fiscal year (September 30, 2013) or convening U.S. Congressional action, at which time the sequestration rate is subject to change. The District estimates a reduction of 5.1% after September 30, 2013 on an annualized basis and is subject to change from U.S. Congressional action.

The District had outstanding debt obligations totaling \$175,085 and \$152,340 at December 31, 2012 and 2011, which were defeased and excluded from the District's long-term debt.

#### *ADVANCE REFUNDING*

On October 25, 2012, bonds in the amount of \$92,855, the 2012A and 2012B bonds, were issued with an average interest rate of 4.99% to advance refund \$105,100 of the outstanding 2003A and 2004A bonds with an average interest rate of 4.89%. The net proceeds of \$109,207 (after payment of \$1,069 in underwriting fees, insurance and other issuance costs) plus an additional \$3,143 of sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed from the balance sheet.

The cash flow requirements on the old bonds prior to the advance refunding was \$163,700 from 2013 through 2033. The cash flow requirements on the new bonds are \$141,470 from 2012 through 2032. The advance refunding resulted in an economic gain of \$12,339.

On July 23, 2011, the District issued the 2011A and B bonds to advance refund the 1999A and 1999B bonds and a portion of the 2001A and 2003A bonds. On August 31, 2011, the District issued the 2011C bonds to advance refund the remaining 2001A bonds outstanding.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 7 – LONG-TERM DEBT (cont.)

---

### *ADVANCE REFUNDING* (cont.)

On July 23, 2011, bonds in the amount of \$141,455, the 2011A and 2011B bonds, were issued with an average interest rate of 4.78% to advance refund \$130,208 of outstanding bonds with an average interest rate of 5.03%. The net proceeds of \$145,480 (after payment of \$822 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed from the balance sheet.

The cash flow requirements on the old bonds prior to the advance refunding was \$194,301 from 2012 through 2026. The cash flow requirements on the new bonds are \$179,284 from 2012 through 2026. The advance refunding resulted in an economic gain of \$12,718.

On August 31, 2011, bonds in the amount of \$32,840, the 2011C bonds, were issued with an average interest rate of 4.88% to advance refund \$32,770 of outstanding bonds with an average interest rate of 5.0%. The net proceeds of \$33,589 (after payment of \$332 in underwriting fees, insurance and other issuance costs) plus an additional \$311 of sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed from the balance sheet.

The cash flow requirements on the old bonds prior to the advance refunding was \$61,676 from 2012 through 2031. The cash flow requirements on the new bonds are \$60,384 from 2012 through 2031. The advance refunding resulted in an economic gain of \$507.

### *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:

	<u>2012</u>	<u>2011</u>
Carrying amount	\$ 799,985	\$ 836,645
Fair value	867,018	858,964

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 7 – LONG-TERM DEBT (cont.)

#### *LONG-TERM OBLIGATION SUMMARY*

Long-term obligation activity for the year ended December 31, 2012 is as follows:

	1/1/12 Balance	Additions	Reductions	12/31/12 Balance	Due Within One Year
Domestic water					
revenue bonds	\$ 149,790	\$ -	\$ 3,980	\$ 145,810	\$ 4,175
Certificate of participation	412,305	-	116,860	295,445	9,585
Revenue bonds	274,550	92,855	8,675	358,730	11,515
Unamortized debt discount	(3,992)	-	(336)	(3,656)	-
Unamortized premium	19,058	17,421	5,578	30,901	-
Unamortized loss on advance refunding	(12,246)	(4,569)	(2,274)	(14,541)	-
Unearned revenue and other liabilities	41,707	11,525	6,128	47,104	-
Derivative financial instruments	46,796	-	10,532	36,264	1,833
Equity interest in M-S-R	68,778	-	10,818	57,960	-
	<u>\$ 996,746</u>	<u>\$ 117,232</u>	<u>\$ 159,961</u>	<u>\$ 954,017</u>	<u>\$ 27,108</u>
Totals					

Long-term obligation activity for the year ended December 31, 2011 is as follows:

	1/1/11 Balance	Additions	Reductions	12/31/11 Balance	Due Within One Year
Domestic water					
revenue bonds	\$ 153,580	\$ -	\$ 3,790	\$ 149,790	\$ 3,980
Certificate of participation	594,242	-	181,937	412,305	11,750
Revenue bonds	100,255	174,295	-	274,550	8,675
Accreted interest on capital appreciation certificates	12,122	777	12,899	-	-
Unamortized debt discount	(5,254)	(219)	(1,481)	(3,992)	-
Unamortized premium	6,892	14,535	2,369	19,058	-
Unamortized loss on advance refunding	(8,903)	(5,808)	(2,465)	(12,246)	-
Unearned revenue and other liabilities	43,551	5,170	7,014	41,707	-
Derivative financial instruments	27,836	18,960	-	46,796	7,996
Deferred cash flow hedges	45	-	45	-	-
Equity interest in M-S-R	75,264	-	6,486	68,778	-
	<u>\$ 999,630</u>	<u>\$ 207,710</u>	<u>\$ 210,594</u>	<u>\$ 996,746</u>	<u>\$ 32,401</u>
Totals					

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 8 – DERIVATIVE INSTRUMENTS

---

### *SUMMARY OF NOTIONAL AMOUNTS AND FAIR VALUES*

The District enters into contracts to hedge its exposure to power and natural gas prices, and to procure energy supplies. The District also enters into contracts to hedge its exposure to fluctuating interest rates. These contracts are evaluated pursuant to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to determine whether they meet the definition of derivative instruments, and, if so, whether they effectively hedge the expected cash flows associated with interest rate and energy exposures.

The District applies hedge accounting for derivatives that are deemed effective hedges. Under hedge accounting, the increase (decrease) in the fair value of a hedge is reported as a deferred inflow (outflow) on the balance sheets. For the reporting periods, all of the District's derivatives meet the effectiveness tests.

For energy derivatives, fair values are estimated by comparing contract prices to forward market prices quoted by third party market participants or provided in relevant industry publications. For interest rate derivatives, the District subscribes to a financial information service that it uses to verify fair value estimates obtained from its counterparties.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 8 – DERIVATIVE INSTRUMENTS (cont.)

#### *SUMMARY OF NOTIONAL AMOUNTS AND FAIR VALUES* (cont.)

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of December 31, 2012 (amounts in thousands; gains shown as positive amounts, losses as negative).

	2012 Change in Fair Value		Fair Value, End of 2012		Notional (Thousands)
	Classification	Amount	Classification	Amount	
<b>Effective Cash Flow Hedges</b>					
Interest Rate Derivatives:					
Pay-fixed swaps, interest rate	Deferred Inflow	\$ 2,328	Derivative	\$ (32,190)	\$ 93,190
Energy Derivatives:					
Forward contracts	Deferred Inflow	641	Derivative	(1,732)	92 MWh
Futures contracts	Deferred Inflow	29	Derivative	-	0 mmBtu
Pay-fixed swaps, natural gas	Deferred Inflow	7,278	Derivative	(2,334)	1,465 mmBtu
Options Contracts	Deferred Inflow	256	Derivative	(8)	660 mmBtu

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of December 31, 2011 (amounts in thousands; gains shown as positive amounts, losses as negative).

	2011 Change in Fair Value		Fair Value, End of 2011		Notional (Thousands)
	Classification	Amount	Classification	Amount	
<b>Effective Cash Flow Hedges</b>					
Interest Rate Derivatives:					
Pay-fixed swaps, interest rate	Deferred Outflow	\$ (17,808)	Derivative	\$ (34,518)	\$ 93,190
Energy Derivatives:					
Forward contracts	Deferred Outflow	(1,212)	Derivative	(2,373)	123 MWh
Futures contracts	Deferred Outflow	(29)	Derivative	(29)	80 mmBtu
Pay-fixed swaps, natural gas	Deferred Inflow	354	Derivative	(9,612)	2,929 mmBtu
Options Contracts	Deferred Outflow	(309)	Derivative	(264)	540 mmBtu

#### **OBJECTIVE AND TERMS OF HEDGING DERIVATIVE INSTRUMENTS**

The objectives and terms of the District's hedging derivative instruments that were outstanding at December 31, 2012 are summarized in the table below. The table is aggregated by the credit ratings (using the Standard & Poor's scale) of the District's counterparties. For counterparties having multiple ratings, the rating indicating the greatest degree of risk is used.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 8 – DERIVATIVE INSTRUMENTS (cont.)

#### *OBJECTIVE AND TERMS OF HEDGING DERIVATIVE INSTRUMENTS (cont.)*

The interest rate swaps are designed to synthetically fix the cash flows associated with variable rate bonds. The interest rate that the District pays on the 2007F bonds is 67% of LIBOR plus a spread. With the interest rate swaps, the District pays the counterparty a fixed rate and receives 67% of LIBOR. Netting out the LIBOR-based payments, the District's effective interest rate is the sum of the fixed rate paid to the swap counterparty and the spread.

The District hedges its power and natural gas costs so that it can offer predictable rates to its retail electric customers and support its credit rating. The District maintains a Risk Management Program (RMP) to control the price, credit, and operational risks arising from its power and natural gas market activities. Under the RMP, authorized District personnel assemble a portfolio of swaps, options, futures, and forward contracts over time with the goal of making the District's purchased power and fuel budget more predictable.

Type	Objective	Notional (Thousands)	Effective Date	Maturity Date	Terms	Counterparty Rating
Pay-fixed swaps, interest rate	Hedge cash flows on the 2007F bonds	\$93,190	Jun -07	Sep-37	Pay 4.378-4.440%; Receive 67% of LIBOR	A
Forward contracts, power	Hedge cash flows on NP15 power purchases	92 MWh	Oct-03	Sep-15	Pay \$70.34/MWh; Settle on CAISO NP15	BBB
Option contracts, natural gas	Hedge cash flows on PG&E citygate gas purchases	660 mmBtu	Dec-12	Dec-13	Collar with \$3.05/mmBtu floor, \$4.55 cap; Settle on NYMEX	N/A
Pay-fixed swaps, natural gas	Hedge cash flows on PG&E citygate gas purchases	1,465 mmBtu	Mar-09	Dec-14	Pay \$4.525-7.13/mmBtu; Receive NGI PG&E citygate price	A

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 8 – DERIVATIVE INSTRUMENTS (cont.)

#### *OBJECTIVE AND TERMS OF HEDGING DERIVATIVE INSTRUMENTS (cont.)*

Objectives and terms of the District's hedging derivative instruments that were outstanding at December 31, 2011 are summarized in the table below:

Type	Objective	Notional (Thousands)	Effective Date	Maturity Date	Terms	Counterparty Rating
Pay-fixed swaps, interest rate	Hedge cash flows on the 2007F bonds	\$93,190	Jun -07	Sep-37	Pay 4.378-4.440%; Receive 67% of LIBOR	A
Forward contracts, power	Hedge cash flows on NP15 power purchases	123 MWh	Oct-03	Sep-15	Pay \$70.34/MWh; Settle on CAISO NP15	BBB
Option contracts, natural gas	Hedge cash flows on PG&E citygate gas purchases	540 mmBtu	Jun-11	Dec-12	Collar with \$4.25-4.35/mmBtu floor, \$4.40 cap; Settle on NYMEX	N/A
Futures contracts, natural gas	Hedge cash flows on PG&E citygate gas purchases	80 mmBtu	Jun-11	Aug-12	Pay \$3.879 - 4.024/mmBtu; Settle on NYMEX	A/A
Pay-fixed swaps, natural gas	Hedge cash flows on PG&E citygate gas purchases	2,929 mmBtu	Feb-08	Dec-14	Pay \$4.525-10.54/mmBtu; Receive NGI PG&E citygate price	A

#### *RISKS OF DERIVATIVE INSTRUMENTS*

**Credit risk** – Credit risk is the risk of loss due to a counterparty defaulting on its obligations. The District seeks to minimize credit risk by transacting with creditworthy counterparties. Interest rate swap counterparties are evaluated at the time of transaction execution. For energy counterparties, the District follows a procedure under its RMP wherein the District will accept more potential credit risk from counterparties having greater amounts of tangible net worth and higher credit ratings. The procedure restricts the District from executing energy hedge transactions with counterparties rated lower than BBB by Standard & Poor's or Fitch rating services, or Baa2 by Moody's.

The District uses industry standard agreements to document derivative transactions. These agreements include netting clauses whereby, if the District and the counterparty owe each other payment, the party owing the greater amount pays the net. The District also uses collateral posting provisions to manage credit risk. These provisions require an out-of-the-money party to post cash, letters of credit, or other pre-agreed liquid securities to the extent that the mark-to-market value of derivative positions with a given counterparty exceeds a threshold value. Thresholds are negotiated individually with counterparties, and the netting provisions include rights to set off against posted collateral.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

### NOTE 8 – DERIVATIVE INSTRUMENTS (cont.)

---

#### *RISKS OF DERIVATIVE INSTRUMENTS* (cont.)

To avoid concentrations of credit risk, and to avoid the risk of itself having to post large amounts of collateral, the District seeks to spread transactions across counterparties so that, even with an adverse move in the market, the threshold values would likely not be exceeded. As of December 31, 2012 and 2011, the District did not have any collateral posted with its derivative counterparties and did not hold any collateral posted by its counterparties.

The District is exposed to credit risk to the extent that it has net fair value gains on its derivative positions with individual counterparties. If a counterparty failed, those value amounts could be lost. As of December 31, 2012 and 2011, the District was not in-the-money with any counterparties; the District's only net gains were on exchange-traded instruments.

**Basis risk** – Basis risk is the risk that arises when a hedged item and a derivative that is attempting to hedge that item are based on different indices. The District is exposed to basis risk when it hedges its natural gas purchases, which are priced at the PG&E citygate index, with NYMEX futures and options contracts, which settle based on the price in Henry Hub, Louisiana. If the markets diverge such that PG&E citygate prices increase relative to Henry Hub prices, the District would be negatively affected on the futures and options contracts that mature in 2013.

**Termination risk** – Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include bankruptcy, illegality, default, and mergers in which the successor entity does not meet credit criteria. One aspect of termination risk is that the District would lose the hedging benefit of a derivative that becomes subject to a termination event. Another aspect of termination risk is that, if at the time of termination the mark-to-market value of the derivative was a liability to the District, the District could be required to pay that amount to the counterparty. Termination risk is associated with all of the District's derivatives up to the fair value amounts.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

### NOTE 8 – DERIVATIVE INSTRUMENTS (cont.)

---

#### *HEDGED DEBT*

Net cash flows for the District's synthetic fixed-rate debt are shown below. These amounts assume that the interest rates of the bonds and the reference rates of the hedging derivative instruments remain at December 31, 2012 levels. These rates will vary and, as they do, interest payments on the variable-rate bonds and net receipts/payments on the interest rate swaps will vary. The table shows only the District's effectively hedged synthetic fixed-rate debt, which is a subset of the District's total debt. As of December 31, 2012, all of the District's variable-rate debt is effectively hedged.

Year Ending December 31,	Principal	Interest	Net Payment on Derivatives	Total
2013	\$ -	\$ 766	\$ 3,357	\$ 4,123
2014	-	766	3,357	4,123
2015	-	766	3,357	4,123
2016	-	766	3,357	4,123
2017	-	766	3,357	4,123
2018 - 2022	-	3,832	16,783	20,615
2023 - 2027	23,370	3,436	14,969	41,775
2028 - 2032	29,250	2,388	10,308	41,946
2033 - 2037	40,570	1,024	4,419	46,013
Totals	<u>\$ 93,190</u>	<u>\$ 14,510</u>	<u>\$ 63,264</u>	<u>\$ 170,964</u>

---

### NOTE 9 – 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.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

#### **BASIC RETIREMENT PLAN** (cont.)

*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, 2013, 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 7.5% per year;
- > Discount rate applied to the pension benefit obligation of 7.5% per year;
- > Salary increases of 4% per year; and
- > Cost of living increases to retirees of 2.50% per year.

The District’s annual pension cost and net pension obligation for 2012 and 2011 were as follows:

	2012	2011
Annual required contribution	\$ 11,164	\$ 10,919
Interest on net pension (prepaid) obligation	135	136
Adjustment to annual required contribution	(152)	(155)
Annual Pension Cost	11,147	10,900
Contributions made	11,169	10,930
Increase (Decrease) in net pension obligation	(22)	(30)
Net pension obligation, beginning of period	1,891	1,921
Net Pension Obligation, End of Period	\$ 1,869	\$ 1,891

*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 Actuarial report. The Required Annual Contributions set forth in the Recommendation regarding total contributions presented in the Actuarial Report are \$11,147 and \$10,900 which were contributed January 1, 2012 and 2011, respectively.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

#### ***BASIC RETIREMENT PLAN*** (cont.)

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:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Net Change in Net Pension Obligation
12/31/12	\$ 11,147	100%	\$ 1,869	\$ (22)
12/31/11	10,900	100%	1,891	(30)
12/31/10	10,422	100%	1,921	(18)

The schedule of funding progress (unaudited) is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
1/01/13	\$ 178,800	\$ 262,062	\$ 83,282	68.2%	\$ 33,520	248.5%
1/01/12	166,043	233,273	67,230	71.2%	30,530	220.2%
1/01/11	149,032	215,074	66,041	69.3%	31,407	210.3%

#### ***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 three investment options, a fund comprised of short-term fixed income money market securities, managed by the District's Treasury Department, a fund comprised primarily of equities, managed by third party investment managers, and a fund comprised of long-term fixed income securities, managed by third party investment managers. The District made contributions to the Supplemental Plan of \$1,710 and \$1,668 for 2012 and 2011, respectively.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

## NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

### *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 271 retirees 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.

*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, 2011, 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;
- > An assumed inflation rate of 3.0% per year;
- > Salary increases of 3.5% per year; and
- > Projected health care cost increases of 5.0% for medical plans 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 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 No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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).

	2012	2011
Annual required contribution	\$ 7,065	\$ 7,260
Interest on net OPEB obligation	357	292
Adjustment to annual required contribution	12	13
Annual OPEB cost (expense)	7,434	7,565
Contributions made	8,164	7,565
Increase (decrease) in net OPEB obligation	(730)	-
Net OPEB obligation, beginning of period	761	761
Net OPEB Obligation, End of Period	\$ 31	\$ 761

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

#### *HEALTH CARE BENEFITS* (cont.)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/12	\$ 7,434	109.82%	\$ 31
12/31/11	7,565	100.00%	761
12/31/10	6,545	100.58%	761

The schedule of funding progress (unaudited) is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/01/11	\$ 14,997	\$ 91,091	\$ 76,094	16.46%	\$ 32,679	232.85%
1/01/09	8,887	74,688	65,801	11.90%	32,463	202.70%
1/01/07	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.

The required schedule of funding progress immediately following the Notes presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as 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. Actuarial calculations reflect a long-term perspective. 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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 10 – COMMITMENTS

---

The District purchases most of its purchased power from M-S-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) titled the "Amended and Restated Long Term Power Sales Agreement" (ARLTPSA) was amended in 2007 and is now titled the "Long Term Energy Sales Agreement between the City and County of San Francisco and the Modesto Irrigation District" (LTESA). Pursuant to the Raker Act (the 1913 federal law enabling construction of the Hetch Hetchy project in the national park) energy from the Hetch Hetchy project in excess of CCSF's municipal loads (Class One power) must be sold to the District and to the Turlock Irrigation District at cost. Among other things, the LTESA specifies how the Class One power is delivered and how the cost-based pricing is determined.

The current LTESA provides Class One power for the District at a minimum schedule of 40% of the capacity for the month. The District's purchases under the LTESA in 2012 and 2011 totaled \$1,578 and \$2,758, respectively. While the current LTESA expires June 30, 2015, the District expects to continue receiving cost-based Class One power after that time. Total estimated payments to CCSF over the next five years are as follows as of December 31, 2012:

2013	\$	2,139
2014		2,201
2015		2,273
2016		2,358
2017		2,477

### *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 2017. Total commitments under these agreements over the next five years are as follows as of December 31, 2012:

2013	\$	93,275
2014		87,540
2015		80,777
2016		60,626
2017		53,229

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

## NOTE 11 – CONTINGENCIES

---

### ***DOMESTIC WATER PLANT POTENTIAL LITIGATION***

Completion of the Modesto Regional Water Treatment Plant Phase Two Expansion Project (“Expansion Project”) will be delayed by approximately three years past its originally scheduled completion date. By virtue of that delay, as well as remedial action which the District has been required to undertake and will undertake in the future, multi-million dollar cost overruns are anticipated.

It is the District’s firm belief that the responsibility for the anticipated cost overrun lies with the general contractor, suppliers, the design engineer, and the construction manager. Consistent with the District’s position, the District has entered into multi-million dollar settlements with those parties, which will provide substantial funding for future repairs of the Expansion Project. These settlements are expected to be recorded in 2013.

Three Government Tort Claims have been filed with the District in connection with the Expansion Project, one of which remains unresolved. The District anticipates that all pending litigation arising out of the Expansion Project will be concluded shortly. The District does not expect the remaining claim to have a material effect on its financial condition, results of operation, or cash flows.

### ***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.

### ***GRANTS***

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

### ***OPEN CONTRACTS***

The District has open contracts for approximately \$8,969 for various capital and operating projects. As of December 31, 2012, approximately \$4,441 has been expended.

***Electric Purchase Contracts.*** The District has entered into numerous electric purchase contracts with amounts totaling approximately 1.4 million megawatt hours (MWh) for the purpose of fixing the rate on the District’s electric power purchases. These electric purchase contracts result in the District paying fixed rates ranging from \$46.00 to \$109.50 per MWh. These contracts expire periodically from December 2014 through June 2016. In addition, the District has entered into contracts for power generated by hydroelectric and wind resources where the amount and cost will depend on weather variables. The hydro and wind contracts expire periodically from June 2015 through December 2037.

***Gas Purchase Contracts.*** The District has entered into numerous gas purchase contracts for the purpose of fixing the rate on the District’s natural gas purchases for its gas-fueled power plants. These gas purchase contracts result in the District paying fixed rates ranging from \$3.79 to \$7.13 per million British Thermal Units (mmbtu). The amounts total to approximately 5.4 million mmbtu and the contracts expire periodically from February 2013 through December 2015.

# MODESTO IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011 (Dollars in Thousands)

---

### NOTE 12 – 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. The District is self insured for general and liability claims up to \$1,000. The District also has excess liability insurance for claims over \$1,000. There was no significant decrease in coverage over the prior year. Settled claims have not exceeded insurance coverage in each of the past three years. Claims are paid as they are incurred. Total accrual and payment history is shown below.

	2012	2011	2010
Claims liability – beginning of year	\$ -	\$ -	\$ -
Claims accrued	932	293	203
Claims paid/other	<u>(199)</u>	<u>(293)</u>	<u>(203)</u>
Claims Liability - End of Year	<u>\$ 733</u>	<u>\$ -</u>	<u>\$ -</u>

---

### NOTE 13 – SUBSEQUENT EVENTS

---

The District evaluated subsequent events through May 6, 2013, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

#### ***BASIC RETIREMENT PLAN***

The Plan was amended effective January 1, 2013 to conform to the State of California Public Employees' Pension Reform Act of 2013 (PEPRA).

The amendment created a third benefit tier applicable to any eligible employee hired on or after January 1, 2013, who is a "new member" of the Plan as that term is defined in California Government Code section 7522.04(f).

New members are subject to a cap on compensation equal to 120 percent of the Social Security contribution and benefit base in effect on January 1, 2013, adjusted in future years for inflation.

Under the law, new members may retire after five years of service and upon reaching 52 years of age. The third tier benefit formula is: 1.0% at 52; 1.3% at 55; 1.8% at 60; 2.0% at 62; 2.3% at 65; 2.5% at 67 (not all ages shown).

New member employees are required to contribute an amount equal to one-half of the defined benefit's normal cost through payroll deductions.

#### ***SUPPLEMENTAL RETIREMENT PLAN***

The Plan was amended effective January 1, 2013 to conform to the State of California Public Employees' Pension Reform Act of 2013 (PEPRA).

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

---

### NOTE 13 – SUBSEQUENT EVENTS (cont.)

---

#### *SUPPLEMENTAL RETIREMENT PLAN* (cont.)

In accordance with PEPRA and California Government Code section 7522.10(f)(2), an employee who receives an employer contribution to the Plan shall not have a vested right to continue receiving any employer contributions in the future.

In accordance with PEPRA and California Government Code section 7522.10(g), any Employer contributions for a "new member," as that term is defined in California Government Code section 7522.04(f), who is a member of both this Plan and a defined benefit pension plan sponsored by the District, for compensation above one hundred twenty percent (120%) of the Social Security contribution and benefit base, adjusted for inflation in future years, shall not, when combined with the Employer's contribution to the employee's retirement benefits below such compensation limit, exceed the Employer's contribution level, as a percentage of pay, required to fund the retirement benefits of employees with income below the compensation limits.

**REQUIRED SUPPLEMENTARY INFORMATION**

## MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)  
For the Years Ended December 31, 2012 and 2011  
(Dollars in Thousands)

### Other Post Employment Benefits (OPEB) Required Supplementary Information

The schedule of funding progress, presented as required supplementary information, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
1/01/11	\$ 14,997	\$ 91,091	\$ 76,094	16.46%	\$ 32,679	232.85%
1/01/09	8,887	74,688	65,801	11.90%	32,463	202.70%
1/01/07	4,198	56,238	52,040	7.46%	30,038	173.25%

### Basic Retirement Plan Required Supplementary Information

The schedule of funding progress, presented as required supplementary information, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The schedule of funding progress as of December 31, 2012 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
1/01/13	\$ 178,800	\$ 262,062	\$ 83,282	68.2%	\$ 33,520	248.5%
1/01/12	166,043	233,273	67,230	71.2%	30,530	220.2%
1/01/11	149,032	215,074	66,041	69.3%	31,407	210.3%

**SUPPLEMENTARY INFORMATION**

## MODESTO IRRIGATION DISTRICT

### COMBINING STATEMENTS OF PLAN NET POSITION As of December 31, 2012 and 2011

(Dollars in Thousands)

<b>ASSETS</b>	Basic Retirement Plan		Supplemental Retirement Plan		Total Fiduciary Funds	
	2012	2011	2012	2011	2012	2011
<b>CASH AND CASH EQUIVALENTS</b>	\$ 2,853	\$ 3,494	\$ 23,816	\$ 23,406	\$ 26,669	\$ 26,900
<b>RECEIVABLES</b>						
Accrued interest	357	450	35	40	392	490
Dividends	87	94	40	40	127	134
Receivable from Modesto Irrigation District	-	-	19	22	19	22
Employer contributions	2,509	-	-	-	2,509	-
					-	-
<b>INVESTMENTS AT FAIR VALLUE</b>						
U.S. government obligations	12,337	11,026	-	-	12,337	11,026
Fixed income securities	29,320	30,560	-	-	29,320	30,560
Publicly traded domestic stocks	79,553	67,698	47,117	41,756	126,670	109,454
Publicly traded international stocks	25,953	20,485	8,043	6,981	33,996	27,466
Real estate investment trust	9,162	7,285	2,350	1,876	11,512	9,161
Hedge funds	18,458	17,269	-	-	18,458	17,269
Total Assets	180,589	158,361	81,420	74,121	262,009	232,482
<b>LESS: ACCRUED LIABILITIES</b>	533	710	-	-	533	710
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 180,056</u>	<u>\$ 157,651</u>	<u>\$ 81,420</u>	<u>\$ 74,121</u>	<u>\$ 261,476</u>	<u>\$ 231,772</u>

See accompanying notes to financial statements.

## MODESTO IRRIGATION DISTRICT

### COMBINING STATEMENTS OF CHANGES IN PLAN NET POSITION

As of December 31, 2012 and 2011

*(Dollars in Thousands)*

	Basic Retirement Plan		Supplemental Retirement Plan		Total Fiduciary Funds	
	2012	2011	2012	2011	2012	2011
<b>ADDITIONS</b>						
Additions to (reductions from) net position attributed to:						
Investment income (loss):						
Net appreciation (depreciation) of investments	\$ 19,914	\$ (5,840)	\$ 7,384	\$ (1,306)	\$ 27,298	\$ (7,146)
Dividend income	1,357	1,033	597	334	1,954	1,367
Interest income	2,085	2,926	82	160	2,167	3,086
Investment expenses	(996)	(890)	-	-	(996)	(890)
Net investment income (loss)	22,360	(2,771)	8,063	(812)	30,423	(3,583)
Contributions						
Employee contributions	-	-	1,710	1,668	1,710	1,668
Employer contributions	11,349	10,962	1,710	1,668	13,059	12,630
Total Contributions	11,349	10,962	3,420	3,336	14,769	14,298
Total Additions	33,709	8,191	11,483	2,524	45,192	10,715
<b>DEDUCTIONS</b>						
Deductions from net position attributed to:						
Distributions to plan members and beneficiaries	11,157	9,964	4,177	4,075	15,334	14,039
Administrative expenses	117	134	-	-	117	134
Consultant and professional services expenses	30	30	-	-	30	30
Forfeitures	-	-	8	-	8	-
Total Deductions	11,304	10,128	4,185	4,075	15,489	14,203
<b>Net increase (decrease) in net position held in trust for pension benefits</b>	22,405	(1,937)	7,298	(1,551)	29,703	(3,488)
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>						
Beginning of year	157,651	159,588	74,122	75,672	231,773	235,260
End of year	\$ 180,056	\$ 157,651	\$ 81,420	\$ 74,121	\$ 261,476	\$ 231,772