

# **MODESTO IRRIGATION DISTRICT**

Modesto, California

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

# MODESTO IRRIGATION DISTRICT

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**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, 2014 and 2013, 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 opinions 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 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 opinions.

***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, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Modesto Irrigation District

***Other Matters***

*Required Supplementary Information*

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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

*Supplementary Information*

Our audits were conducted for the purpose of forming opinions on the basic financial statements as a whole. The combining statements of fiduciary net position and changes in fiduciary net position are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 fiduciary net position and changes in fiduciary net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Baker Gilly Veichow Krause, LLP*

Madison, Wisconsin  
May 7, 2015

## MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2014 and 2013 – Unaudited

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### Overview

The following management discussion and analysis of the Modesto Irrigation District (District) provides an overview of the financial activities and transactions for fiscal years 2014 and 2013 in the context of the requirements of the Governmental Accounting Standards Board (GASB) 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.

### 2014 District Highlights and Changes

- **Assets Retirement Obligations (ARO)** The District had identified retirement obligations for transformers that are known to contain PCB oil and estimated the liability for disposal of these transformers. The District recorded a liability in 2013 for this obligation in the amount of \$185,000. After reviewing the cost and revenue for disposal of transformers containing PCB oil, the District has determined that there is no asset retirement obligation and has removed this amount from Other Liabilities.
- The District implemented GASB 67: Financial Reporting for Pension Plans for the stand-alone pension plans. Additions included changes terminology and additional footnote disclosure information that consisted of plan description; pension plan investments; receivables; reserves; benefits terms; number of participants; contribution requirements; assumptions; support for the discount rate; and details of changes in the Net Pension Liabilities (NPL). Other changes included added Required Supplemental Information (RSI) such as 10-years of changes in NPL; a 10-year comparison of funding status; and 10-years of Annual Required Contribution (ARC) versus actual contributions. The implementation of GASB 67 does not affect the District's financial statements or footnotes.

### 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).

### 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 Fiduciary Net Position, and Statement of Changes in Fiduciary 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 economic resources 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, 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

## **MODESTO IRRIGATION DISTRICT**

Management's Discussion and Analysis

Years ended December 31, 2014 and 2013 – Unaudited

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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.

### **Statement of Cash Flows:**

The Statement of Cash Flows reports the District's inflows and outflows of cash. This report provides management with information regarding 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.

1. 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.
2. Investing Activities – reflects the cash flow from all investing activities including purchases or sales of investment securities.
3. 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 Fiduciary Net Position**

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

### **Statement of Changes in Fiduciary Net Position**

The Statement of Changes in Fiduciary 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, 2014 and 2013 – Unaudited

The following is a comparative financial summary for years ending December 31, 2014, 2013, and 2012 respectively.

### Financial Summary

#### Balance Sheet

(\$ in millions)	December 31, 2014	December 31, 2013	December 31, 2012	Change from 2013 to 2014
<b>Assets and Deferred Outflows of Resources</b>				
Utility plant, net	\$ 710.5	\$ 706.3	\$ 728.7	\$ 4.1
Other noncurrent assets and investments	195.1	229.5	213.4	(34.4)
Current assets	157.9	114.1	122.2	43.8
Deferred outflows of resources	<u>41.7</u>	<u>32.8</u>	<u>50.8</u>	<u>8.9</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$1,105.1</u>	<u>\$ 1,082.7</u>	<u>\$ 1,115.1</u>	<u>\$ 22.4</u>
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>				
Long-term debt, net	\$ 719.5	\$ 745.3	\$ 774.7	\$ (25.8)
Noncurrent liabilities	104.3	106.3	137.8	(2.0)
Current liabilities	78.0	76.1	77.0	1.9
Deferred inflow of resources	37.6	33.2	29.0	4.4
Net position				
Net investment in capital assets	7.4	(23.7)	(13.2)	31.1
Unrestricted	<u>158.2</u>	<u>145.5</u>	<u>109.8</u>	<u>12.7</u>
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<u>\$ 1,105.1</u>	<u>\$ 1,082.7</u>	<u>\$ 1,115.1</u>	<u>\$ 22.4</u>

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

(\$ in millions)	December 31, 2014	December 31, 2013	December 31, 2012	Change from 2013 to 2014
<b>Operating Income</b>				
Operating revenues	\$ 416.8	\$ 406.7	\$ 389.2	\$ 10.1
Operating expenses	<u>(354.6)</u>	<u>(352.6)</u>	<u>(316.0)</u>	<u>(2.0)</u>
Operating income (loss)	62.2	54.1	73.2	8.1
<b>Non-operating Income (Expenses)</b>				
Investment and other income	15.4	6.9	10.9	8.5
Interest expense	(39.1)	(40.3)	(41.6)	1.2
Other non-operating income, net	<u>5.5</u>	<u>4.5</u>	<u>4.5</u>	<u>1.0</u>
Non-operating income (expense)	(18.3)	(28.9)	(26.2)	10.6
Change in net position	<u>43.8</u>	<u>25.2</u>	<u>47.0</u>	<u>18.7</u>
Net position, beginning of year	<u>121.8</u>	<u>96.6</u>	<u>49.6</u>	<u>25.2</u>
<b>Net Position, End of Year</b>	<u>\$ 165.6</u>	<u>\$ 121.8</u>	<u>\$ 96.6</u>	<u>\$ 43.8</u>

## MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

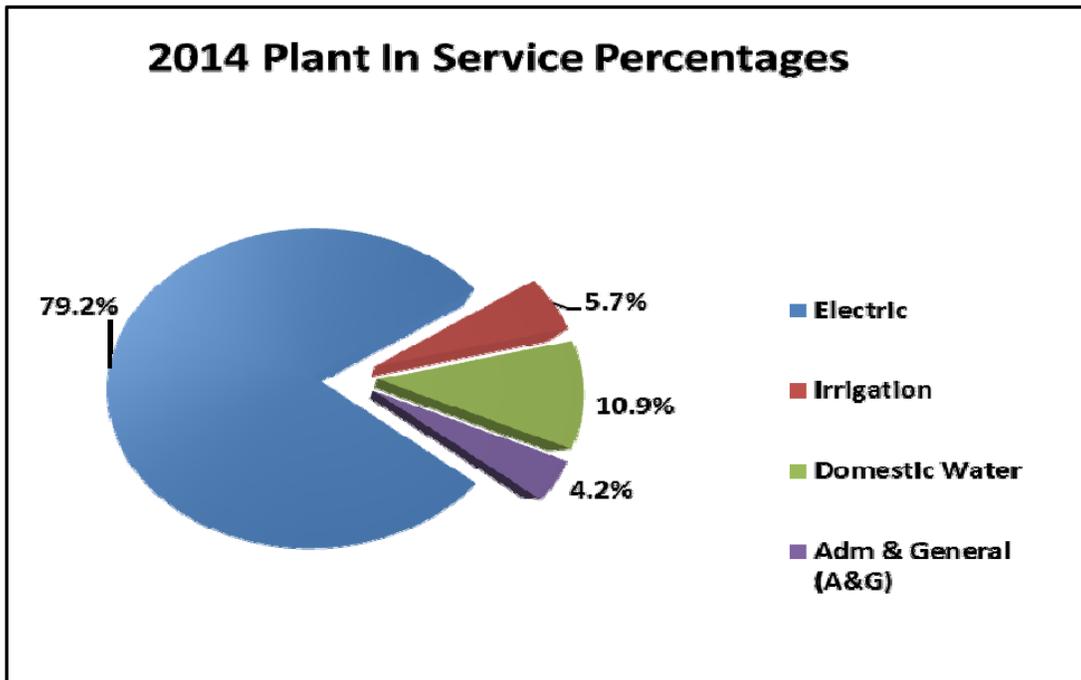
Years ended December 31, 2014 and 2013 – Unaudited

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### ASSETS and DEFERRED OUTFLOWS

#### ***Utility Plant, net***

MID has invested approximately \$710.5 million in utility plant assets net of accumulative depreciation and transferred approximately \$22.3 million of assets from construction in progress to utility plant in service in 2014. The following chart reflects the percentage breakdown of Utility Plant net of depreciation by category as of December 31, 2014.



Utility plant increased by \$4.1 million in 2014 due to additions in plant and service and construction work in progress offset by depreciation.

Utility plant decreased by \$22.3 million in 2013 due to depreciation offset by transfers from construction in progress.

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

Other non-current assets and investments decreased \$34.4 million in 2014 as a result of a re-class from investments – unrestricted to cash and cash equivalents – unrestricted of approximately \$39.9 million. The re-class was offset by a net change in cash and investments – restricted and the capital improvement fund of approximately \$6.8 million. The re-class was made to allow for payments on debt, capital costs, and other cash needs.

Other non-current assets and investments increased \$16.1 million in 2013 as a result of a re-class from investments – unrestricted to cash and cash equivalents – unrestricted of approximately \$25.0 million. The re-class was offset by a net change in cash and investments – restricted and capital improvement fund of approximately \$8.3 million. The re-class was made to allow for payments on debt, capital costs, and other cash needs.

## **MODESTO IRRIGATION DISTRICT**

Management's Discussion and Analysis

Years ended December 31, 2014 and 2013 – Unaudited

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### ***Current assets***

Current assets increased by \$43.8 million in 2014 based on a combination of both changes in the District's portfolio from long-term investments to short-term plus rising electric sales increasing cash and cash equivalents – unrestricted by \$29.5 million. Additional significant changes include an increase of \$6.0 million in material and supplies primarily due to the addition of green house gas allowances required by the California Air Resource Board Cap-and-Trade program. Other changes include a \$7.3 million increase in other current assets, net due primarily for receivables due from TANC of \$5.2 million.

Current assets decreased by \$8.1 million in 2013 based on the net result of a re-class from investments – unrestricted to cash and cash equivalents – unrestricted of approximately \$25.0 million. This movement reflects the net in unrestricted cash from operational income. Changes also include an increase of \$9.1 million in material and supplies due to the addition of greenhouse gas allowances required by the California Air Resource Board Cap-and-Trade program.

### ***Deferred Outflows of Resources***

In 2014 deferred outflows of resources increased by \$8.9 million. The increase in deferred cash flow hedges of \$11.0 million reflects a decrease in the value of the derivatives held by the District offset by unamortized loss on advanced refunding of \$2.1 million.

In 2013 deferred outflows of resources decreased by \$18.0 million. The decrease in deferred cash flow hedges of \$16.5 million reflects an increase in value of the derivatives held by the District.

## **LIABILITIES AND NET POSITION**

### ***Long-term debt***

Long-term debt decreased by \$25.7 million in 2014 due to scheduled debt service payments.

Long-term debt decreased by \$29.4 million in 2013 due to scheduled debt service payments and the refunding of the Domestic Water 1998D revenue bonds with the 2013G revenue bonds.

### ***Non-current liabilities***

Non-current liabilities decreased \$2.0 million in 2014 due to changes in derivatives financial instruments and liabilities for equity interest in M-S-R.

Non-current liabilities decreased \$31.5 million in 2013 due to changes in derivatives financial instruments and liabilities for equity interest in M-S-R.

### ***Current liabilities***

Current liabilities remained relatively flat with a slight increase of \$1.9 million in 2014 due to a increases in current portion of long-term debt and derivative financial instrument maturing within one year offset by slight decreases in accounts payable for services and supplies and interest payable.

Current liabilities remained relatively flat with a slight decrease of \$0.9 million in 2013 due to a decrease in derivative financial instrument maturing within one year offset by slight increase in accounts payable for services and supplies.

### ***Deferred inflow of resources***

Deferred inflow of resources is unearned revenue which reflects the difference between the time the

## **MODESTO IRRIGATION DISTRICT**

Management's Discussion and Analysis

Years ended December 31, 2014 and 2013 – Unaudited

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District bills the City of Modesto for Domestic Water and when the expense for depreciation is recovered and recorded. In 2014 the amount increased by \$4.4 million.

### ***Net position***

In 2014, the District's net investment in capital assets increased by \$31.1 million primarily due to investments in fixed assets and scheduled debt payments from current year.

Unrestricted net position increased by \$12.7 million in 2014 primarily due to the increase in revenue for the current year.

In 2013, the District's net investment in capital assets decreased by \$10.5 million primarily due to the refunding of debt in the current year.

Unrestricted net position increased by \$35.7 million in 2013 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, 2014 and 2013 – Unaudited

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

### Operating Revenues

#### Changes from 2013 to 2014

In 2014 operating revenue increased by \$10.1 million or approximately 2.46%.

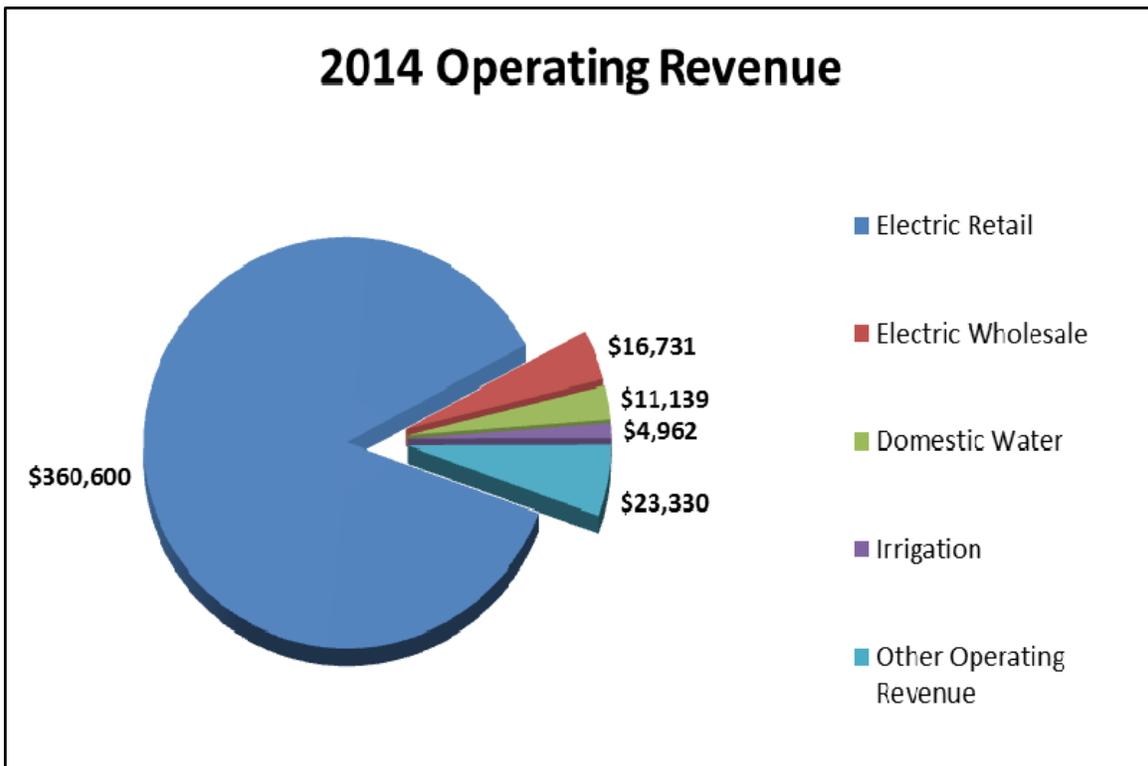
Retail electric revenue increased by \$11.7 million or approximately 3.35%. Retail consumption has remained relatively constant with changes in revenue due to an increase customers and demand.

Wholesale electric revenue had an increase of \$4.1 million or approximately 32.85%. The increase is due to excess generation sold related to the operations of the Lodi Energy Center.

Domestic Water revenue had a decrease of \$784 thousand or 6.58% due to drought reductions in water demand. Irrigation revenue increased by \$1.3 million or 33.96% due to the drought surcharge

Other operating revenue includes equity in public power agencies, greenhouse gas revenue, and late charges. Other operating revenue decreased by \$6.3 million or 21.22% due to reductions in equity in public power agencies, greenhouse gas revenue, and late fees.

The following is the District's 2014 operating revenue (**dollars are in thousands**):



# MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2014 and 2013 – Unaudited

## Operating Revenues

### Changes from 2012 to 2013

In 2013 operating revenue increased by \$17.5 million or approximately 4.5%.

Retail electric revenue decreased by \$1.2 million or approximately .35%. Retail consumption has remained relatively constant with changes in revenue due to reductions in industrial demand.

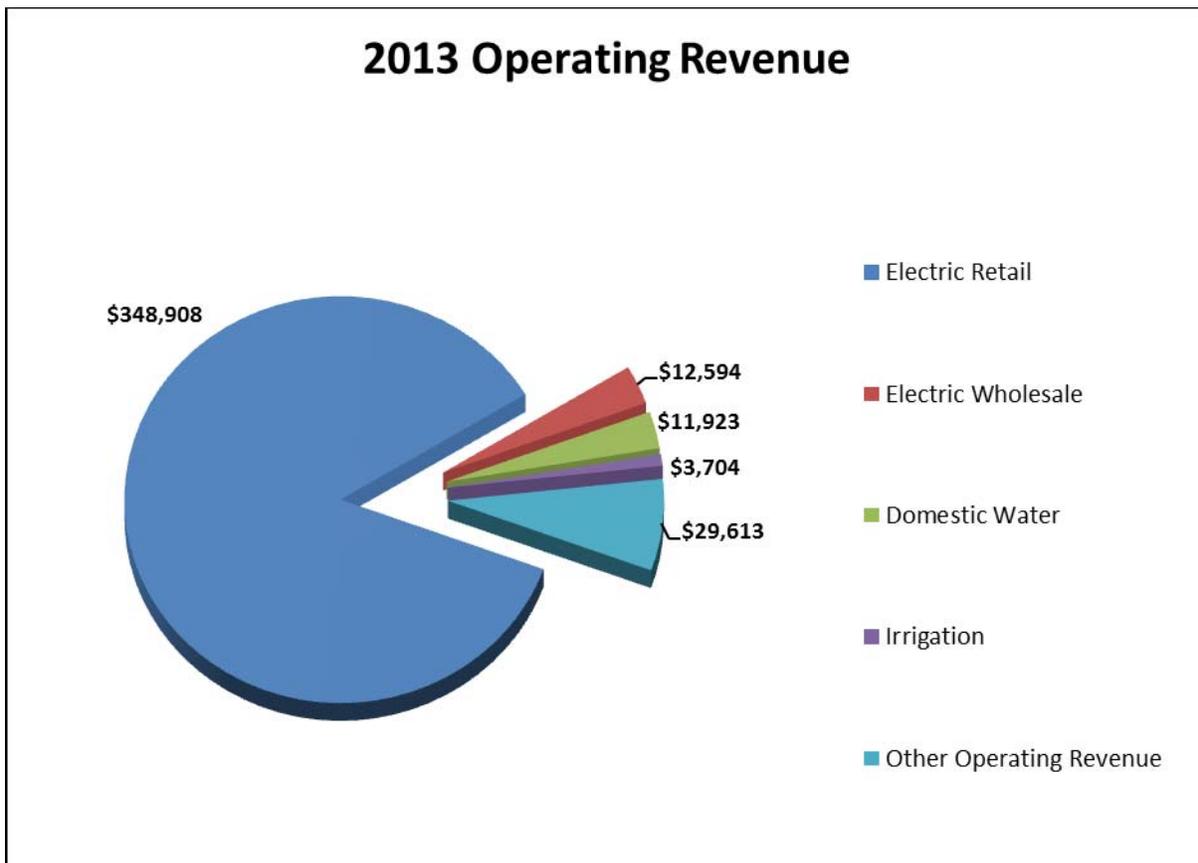
Wholesale electric revenue had an increase of \$6.1 million or approximately 95.4%. The increase is due to excess generation sold related to the first full year of operations of the Lodi Energy Center.

Water revenues from both Domestic and Irrigation remained relatively constant with a slight increase in revenue for both based on demand. Domestic Water revenue increased by \$783 thousand and Irrigation Water decreased by \$45 thousand or 7.03% and 1.23% respectively.

Equity in net income of public power agencies increased \$3.5 million for 2013.

Other operating income increased by \$8.3 million or 130.36% due to a market adjustment for greenhouse gas allowances held for sale as required by the California Air Resource Board Cap-and-Trade program.

The following is the District's 2013 operating revenue (**dollars are in thousands**):



# MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2014 and 2013 – Unaudited

## Operating Expenses

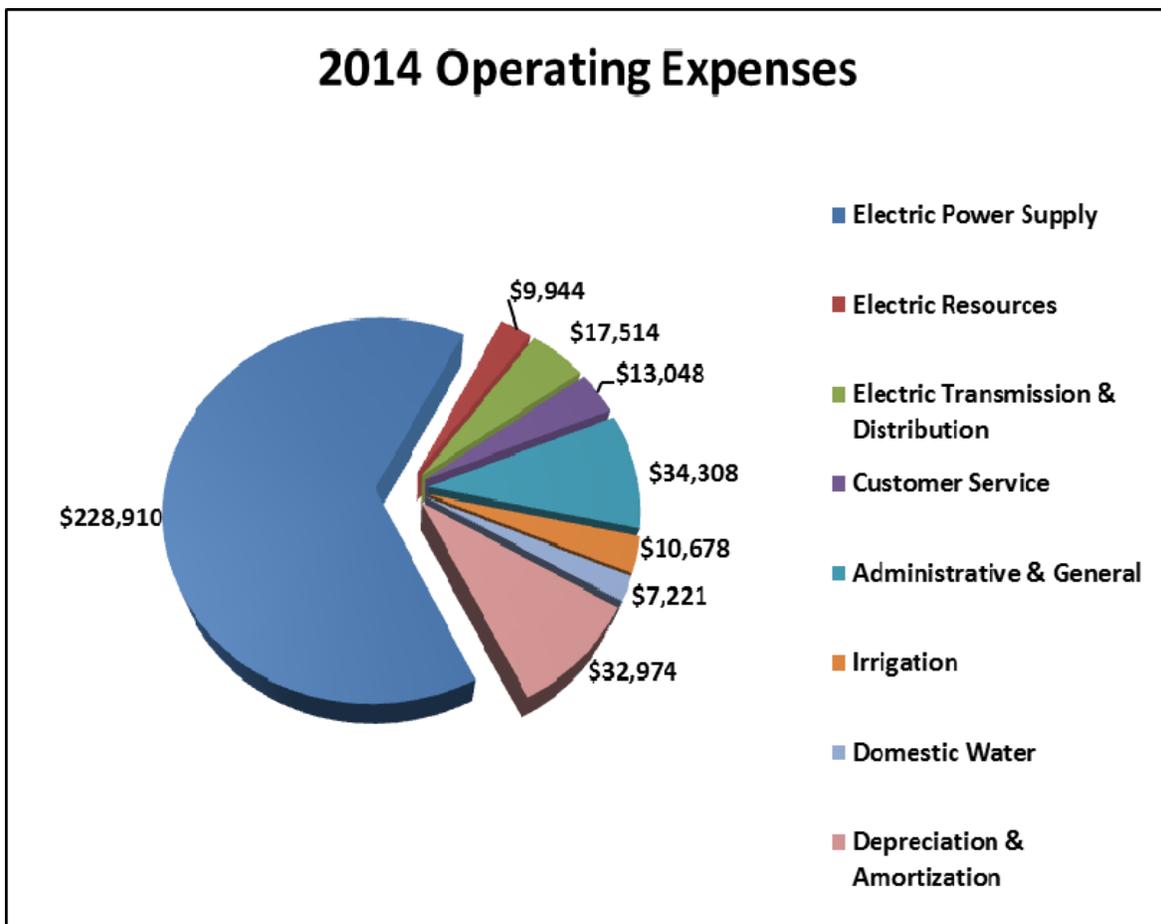
### Changes from 2013 to 2014

Total operating expenses reflect an increase of approximately \$2.0 million in 2014. The increase is primarily due to the increased costs in purchased power and Irrigation operations offset by reductions in depreciation and administrative and general costs.

Purchased power and power generation expenses for 2014 reflect an increase of \$2.6 million or approximately 1.1%. The change is mainly due to availability and pricing of purchased power and a reduction in hydro power generation.

Water operations expenses for Domestic Water and Irrigation reflect increases of \$183 thousand or 2.6% for Domestic Water and \$1.5 million or 15.9% for Irrigation respectively. The increase is primarily due to increased costs in operations and maintenance relating to the drought.

The following depicts the 2014 power supply and other operation expenses (**dollars are in thousands**):



# MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2014 and 2013 – Unaudited

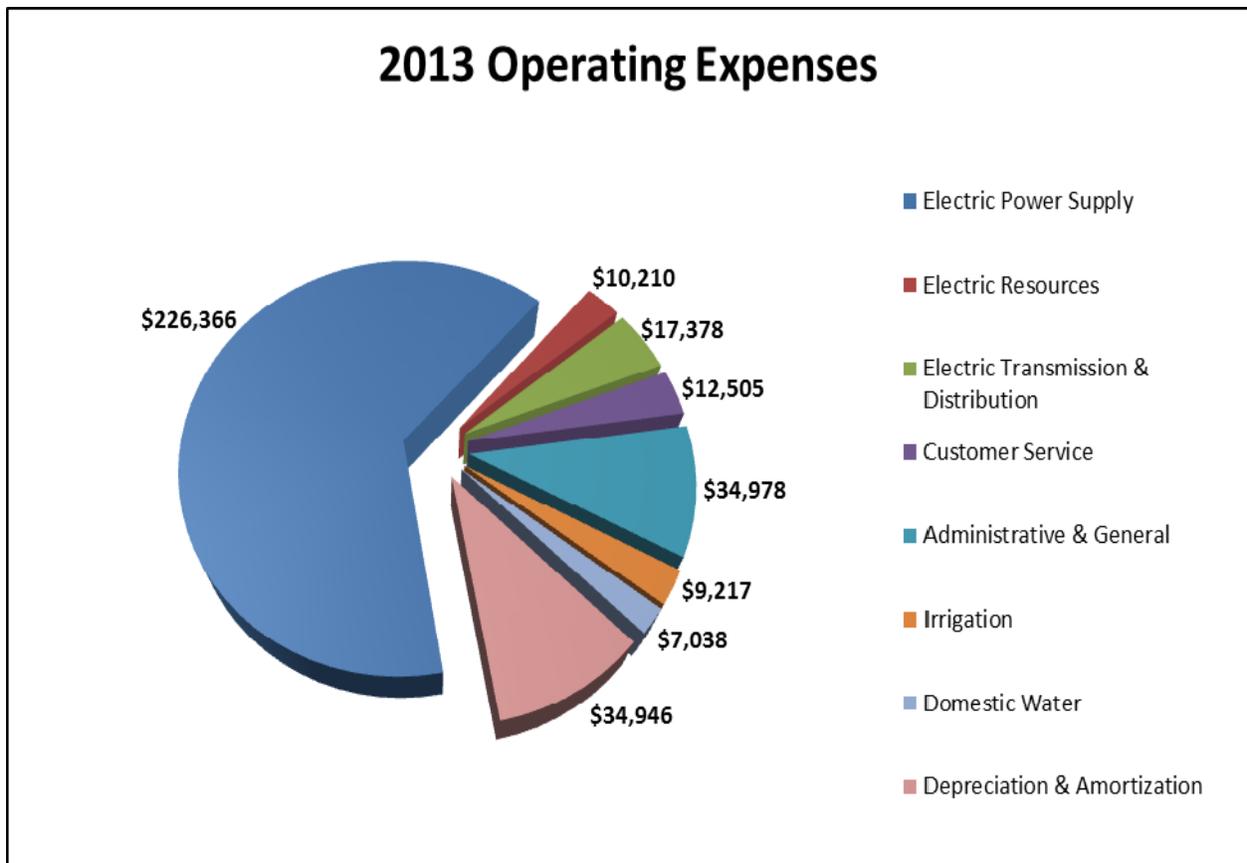
## Changes from 2012 to 2013

Total operating expenses reflect an increase of approximately \$36.6 million in 2013. The increase is primarily due to the increased costs in purchased power and operations and maintenance.

Purchased power and power generation expenses for 2013 reflect an increase of \$27.7 million or approximately 13.9%. The change is mainly due to availability and pricing of purchased power.

Water operations expenses for Domestic Water and Irrigation reflect increases of \$1.03 million or 17.24% for Domestic Water and \$898 thousand or 10.8% for Irrigation respectively. The increase is primarily due to increased costs in operations and maintenance.

The following depicts the 2013 power supply and other operation expenses (**dollars are in thousands**):



## **MODESTO IRRIGATION DISTRICT**

Management's Discussion and Analysis

Years ended December 31, 2014 and 2013 – Unaudited

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### **Non-Operating Revenue (Expenses)**

#### ***Investment income***

Investment and other income increased in 2014 by \$8.5 million due to capital contributions for Water and Electric, interest income, capitalized interest, and amortization of premium.

Investment and other income decreased in 2013 by \$4.0 million due to reductions in investment income.

#### ***Interest expense***

Interest expense for 2014 decreased \$1.1 million over the prior year due to reductions in principal of outstanding debt.

Interest expense for 2013 decreased \$1.3 million over the prior year due to reductions in principal of outstanding debt and refinancing current debt to lower rates.

#### ***Other non-operating Income, net***

Other non-operating income increased in 2014 by \$1.0 million over the prior year due to increases in rental and miscellaneous revenue.

### **Contacting the Modesto Irrigation District**

This financial report is designed to provide our customers, investors, and creditors with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Controller's Office at P.O. Box 4060, Modesto, CA 95352.

# MODESTO IRRIGATION DISTRICT

## BALANCE SHEETS

As of December 31, 2014 and 2013

	<i>(Dollars in Thousands)</i>	
<b>ASSETS AND DEFERRED OUTFLOWS</b>	2014	2013
<b>CAPITAL ASSETS</b>		
Plant in service	\$ 1,149,643	\$ 1,127,305
Less accumulated depreciation	<u>(550,293)</u>	<u>(518,098)</u>
Plant in service - net	599,350	609,207
Construction work in progress	<u>111,109</u>	<u>97,127</u>
Total Capital Assets	<u>710,459</u>	<u>706,334</u>
<b>OTHER ASSETS AND INVESTMENTS</b>		
Cash and investments - restricted	56,058	56,322
Investments - unrestricted	107,320	148,515
Interest receivable - restricted	317	387
Capital improvement fund	20,653	13,633
Regulatory costs for future recovery	6,451	7,088
Equity interest in TANC	2,912	3,573
Other long-term assets	<u>1,375</u>	<u>-</u>
Total Other Assets and Investments	<u>195,086</u>	<u>229,518</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents - unrestricted	62,426	32,929
Cash and cash equivalents - restricted	10,969	11,279
Interest receivable - unrestricted	767	793
Customer accounts receivable, net	34,708	32,973
Wholesale power receivables	76	363
Materials and supplies	29,573	23,533
Prepayments	2,904	3,088
Other current assets, net	<u>16,430</u>	<u>9,084</u>
Total Current Assets	<u>157,853</u>	<u>114,042</u>
Total Assets	<u>1,063,398</u>	<u>1,049,894</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred cash flow hedges - unrealized loss on derivatives	30,795	19,758
Unamortized loss on refunding	<u>10,903</u>	<u>13,061</u>
Total Deferred Outflows of Resources	<u>41,698</u>	<u>32,819</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 1,105,096</u>	<u>\$ 1,082,713</u>

<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<i>(Dollars in Thousands)</i>	
	<u>2014</u>	<u>2013</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	\$ 719,525	\$ 745,270
Unamortized premium	26,529	31,796
Unamortized debt discount	(2,649)	(2,759)
Other liabilities	16,693	13,856
Derivative financial instruments	28,618	19,391
Equity interest in M-S-R	<u>35,135</u>	<u>44,090</u>
Total Noncurrent Liabilities	<u>823,851</u>	<u>851,644</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and other accruals	36,176	37,116
Current liabilities payable from restricted assets		
Current portion of long-term debt	25,745	24,265
Interest payable	13,925	14,392
Derivative financial instruments maturing within one year	<u>2,177</u>	<u>367</u>
Total Current Liabilities	<u>78,023</u>	<u>76,140</u>
Total Liabilities	<u>901,874</u>	<u>927,784</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unearned revenue	<u>37,632</u>	<u>33,170</u>
<b>NET POSITION</b>		
Net investment in capital assets	7,403	(23,711)
Unrestricted	<u>158,187</u>	<u>145,470</u>
Total Net Position	<u>165,590</u>	<u>121,759</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u>\$ 1,105,096</u>	<u>\$ 1,082,713</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, 2014 and 2013

	<i>(Dollars in Thousands)</i>	
	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Residential, commercial and industrial electric	\$ 360,600	\$ 348,908
Wholesale electric	16,731	12,594
Domestic water	11,139	11,923
Irrigation water	4,962	3,704
Equity in net income of public power agencies	9,076	14,932
Other operating income, net	<u>14,254</u>	<u>14,681</u>
Total Operating Revenues	<u>416,762</u>	<u>406,742</u>
<b>OPERATING EXPENSES</b>		
Purchased power	192,803	188,563
Power generation	36,107	37,803
Electric resources	9,944	10,210
Electric transmission and distribution	17,514	17,378
Irrigation operations	10,678	9,217
Domestic water operations	7,221	7,038
Customer account service	13,048	12,505
Administrative and general	34,308	34,978
Depreciation and amortization	<u>32,974</u>	<u>34,946</u>
Total Operating Expenses	<u>354,597</u>	<u>352,638</u>
<b>OPERATING INCOME</b>	<u>62,165</u>	<u>54,104</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	3,301	787
Interest expense	(39,145)	(40,256)
Capitalized interest	3,678	3,678
Amortization of debt discount	(110)	(150)
Amortization of premium	5,267	4,798
Amortization of loss on refunding	(2,158)	(2,398)
Regulatory amounts collected in rates	(637)	(636)
Other nonoperating income, net	<u>5,453</u>	<u>4,500</u>
Total Nonoperating Expenses	<u>(24,351)</u>	<u>(29,677)</u>
Change in Net Position Before Contributions	37,814	24,427
<b>CAPITAL CONTRIBUTIONS - ELECTRIC</b>	484	744
<b>CAPITAL CONTRIBUTIONS - DOMESTIC WATER</b>	<u>5,533</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	43,831	25,171
NET POSITION - Beginning of Year	<u>121,759</u>	<u>96,588</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 165,590</u>	<u>\$ 121,759</u>

See accompanying notes to financial statements.

## MODESTO IRRIGATION DISTRICT

### STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2014 and 2013

	<i>(Dollars in Thousands)</i>	
	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 402,245	\$ 390,367
Payments to suppliers for goods and services	(282,845)	(274,859)
Payments to employees for services	(38,951)	(39,483)
Net Cash Flows Provided by Operating Activities	<u>80,449</u>	<u>76,025</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Net proceeds (payments) from issuance of long-term debt obligations	-	(4,814)
Repayment of long-term debt	(24,265)	(21,100)
Debt issuance costs	-	(654)
Construction expenditures	(31,045)	(12,131)
Interest paid	(39,612)	(37,948)
Contributions received for construction	5,824	402
Net Cash Flows Used in Capital Financing Activities	<u>(89,098)</u>	<u>(76,245)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(22,241)	(94,360)
Investments sold and matured	66,474	73,901
Interest received	2,750	2,334
Net Cash Flows Provided by (Used in) Investing Activities	<u>46,983</u>	<u>(18,125)</u>
<b>Net Change in Cash and Cash Equivalents</b>	<b>38,334</b>	<b>(18,345)</b>
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>39,334</u>	<u>57,679</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 77,668</u></b>	<b><u>\$ 39,334</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Market adjustment for greenhouse gas allowances	\$ 8,806	\$ 8,320
Noncash contributions by developers	\$ 193	\$ 342
Capitalized interest	\$ 3,678	\$ 3,678
Amortization	\$ 2,362	\$ 1,614
Change in valuation of derivative financial instruments	\$ 9,992	\$ 14,269
Long-term debt advance refunded	\$ -	\$ (52,620)
Unrealized gain (loss) on investments	\$ 647	\$ (1,486)

See accompanying notes to financial statements.

	<i>(Dollars in Thousands)</i>	
	<u>2014</u>	<u>2013</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 62,165	\$ 54,104
Adjustments to reconcile operating income to net cash flows provided by operating activities		
Other non-operating income	5,453	4,500
Depreciation and amortization	32,974	34,946
Undistributed income from public power agencies	(8,294)	(14,932)
Change in operating assets, liabilities, and deferred inflows		
Customer accounts receivable, net	(1,735)	943
Wholesale power receivables	287	(191)
Other current assets, net	(8,721)	1,703
Materials and supplies	(6,040)	(9,095)
Prepayments	184	121
Accounts payable and other accruals	(3,123)	4,004
Unearned revenue and other liabilities	<u>7,299</u>	<u>(78)</u>
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 80,449</u></b>	<b><u>\$ 76,025</u></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS</b>		
Cash and cash equivalents - unrestricted	\$ 62,426	\$ 32,929
Cash and cash equivalents - restricted	10,969	11,279
Investments - unrestricted	107,320	148,515
Cash and investments - restricted	56,058	56,322
Capital improvement fund	<u>20,653</u>	<u>13,633</u>
Total Cash and Investments	257,426	262,678
Less: Noncash equivalents	<u>(179,758)</u>	<u>(223,344)</u>
<b>CASH AND CASH EQUIVALENTS</b>	<b><u>\$ 77,668</u></b>	<b><u>\$ 39,334</u></b>

See accompanying notes to financial statements.

# MODESTO IRRIGATION DISTRICT

## STATEMENTS OF FIDUCIARY NET POSITION As of December 31, 2014 and 2013

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<b>ASSETS</b>	<i>(Dollars in Thousands)</i>	
	<u>2014</u>	<u>2013</u>
<b>CASH AND CASH EQUIVALENTS</b>	\$ 4,831	\$ 31,990
<b>RECEIVABLES</b>		
Accrued interest	365	373
Dividends	95	153
Receivable from Modesto Irrigation District	-	93
Employer contributions	-	1,963
<b>INVESTMENTS AT FAIR VALUE</b>		
U.S. government obligations	11,221	9,967
Fixed income securities	43,106	36,078
Publicly traded domestic stocks	108,064	151,545
Publicly traded international stocks	29,876	46,351
Real estate investment trust	12,331	12,203
Stable value	5,591	-
Mutual funds	90,828	-
Hedge funds	22,914	20,665
Total Assets	<u>329,222</u>	<u>311,381</u>
<b>LESS: ACCRUED LIABILITIES</b>	<u>901</u>	<u>791</u>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 328,321</u>	<u>\$ 310,590</u>

# MODESTO IRRIGATION DISTRICT

## STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION As of December 31, 2014 and 2013

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	<i>(Dollars in Thousands)</i>	
	<u>2014</u>	<u>2013</u>
<b>ADDITIONS</b>		
Additions to net position attributed to:		
Investment income:		
Net appreciation (depreciation) of investments	\$ 17,936	\$ 46,055
Dividend income	1,860	1,786
Interest income	2,064	2,082
Investment expenses	<u>(1,334)</u>	<u>(1,177)</u>
Net investment income	20,526	48,746
Contributions		
Employee contributions	1,987	1,902
Employer contributions	<u>15,136</u>	<u>15,341</u>
Total Contributions	<u>17,123</u>	<u>17,243</u>
 Total Additions	 <u>37,649</u>	 <u>65,989</u>
 <b>DEDUCTIONS</b>		
Deductions from net position attributed to:		
Distributions to plan members and beneficiaries	19,759	16,721
Administrative expenses	119	123
Consultant and professional services expenses	40	30
Forfeitures	<u>-</u>	<u>1</u>
Total Deductions	<u>19,918</u>	<u>16,875</u>
 <b>Net increase in net position held in trust for pension benefits</b>	 17,731	 49,114
 <b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	<u>310,590</u>	<u>261,476</u>
 <b>END OF YEAR</b>	 <u>\$ 328,321</u>	 <u>\$ 310,590</u>

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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## **NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

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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.

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## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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 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, 2014 and 2013  
(Dollars in Thousands)

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

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### *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, deferred outflows of resources, liabilities and deferred inflows of resources 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).

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 and are immaterial to the Plan. The derivative instruments are recorded on the statements of fiduciary net position at fair market value, with a corresponding charge to appreciation (depreciation) in the statement of changes in fiduciary 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, 2014 and 2013  
(Dollars in Thousands)

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

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### ***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 \$2,050 and \$3,757 as of December 31, 2014 and 2013, 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 (\$729) and \$2,285 at December 31, 2014 and 2013, 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.

### ***REGULATORY COSTS FOR FUTURE RECOVERY***

As a regulated entity, the District's financial statements are prepared in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which require that the effects of the rate making process be recorded in the financial statements. Accordingly, certain expenses and credits normally reflected in the change in net position as incurred are recognized when included in rates. The District records regulatory assets and credits to reflect rate-making actions of the Board. The account includes the unamortized debt issuance costs of previously issued bonds of the District.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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

The balance represents miscellaneous receivables and deposits. \$1,561 and \$976 of the 2014 and 2013 balances, respectively, are receivables from the City of Modesto for a domestic water pipeline project in 2014 and for their portion of a roof replacement project for the domestic water treatment plant in 2013. Approximately \$1,375 of the 2014 balance 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 \$5 and an estimated useful life in excess of three years.

Capital assets are stated at cost. Costs and related accumulated depreciation of assets sold or otherwise disposed of are eliminated from the accounts and related gains or losses are considered non-operating. The costs of replacement are charged to District plant. Repair and maintenance costs are charged to expense in the period incurred. Interest costs incurred 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.

### ***DEFERRED OUTFLOWS OF RESOURCES***

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

### ***ACCRUED VACATION***

Under terms of employment, employees are granted vacation time in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation pay is accrued when earned in the financial statements. The liability is liquidated from general operating revenues of the utility. At December 31, 2014 and 2013, the District recorded accrued vacation time of \$2,853 and \$2,908, respectively. The liability is included in accounts payable and other accruals in the accompanying balance sheet.

### ***OTHER LIABILITIES***

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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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### ***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, 2014 and 2013 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 2013 for this obligation in the amount of \$185. The retirement obligation was written off in 2014 due to the District generating more revenues from the scrap material of the transformers than the cost to dispose. This amount is included under 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.

### ***LONG-TERM DEBT***

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts are 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. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the balance sheet. The balance at year end for the loss on refunding is shown as a deferred outflow in the balance sheet.

### ***DEFERRED INFLOWS OF RESOURCES***

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

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. Annual differences between billings to the City and the District's annual Project costs are charged or credited to unearned revenues. These differences are being amortized over the life of the facility. 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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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### ***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 does 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, 2014 and 2013, unbilled revenues of \$19,709 and \$18,914, 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, 2014 and 2013  
(Dollars in Thousands)

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

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### *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.

### *COMPARATIVE DATA*

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

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

The GASB has approved GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, and Statement No. 72, *Fair Value Measurement and Application*. When they become effective, application of these standards may restate portions of these financial statements.

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## NOTE 3 – CASH AND INVESTMENTS

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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.

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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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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 (interest bearing and noninterest bearing). 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 2014 and 2013.

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.

### ***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, 2014 and 2013, none of the District's bank balances are known to be individually exposed to custodial credit risk.

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

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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

##### *Custodial Credit Risk (cont.)*

#### 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, 2014 and 2013, 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	2014	2013
US Agencies Implicitly Guaranteed	\$ 106,262	\$ 125,823
Corporate Medium Term Notes	45,216	45,794
U.S. Treasury Notes	-	18,184
Municipal Bonds	2,020	-
Totals	\$ 153,498	\$ 189,801

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.

As of December 31, 2014 and 2013, the District's investments were rated as follows:

Investment Type	Standard & Poors	
	2014	2013
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	A- – AA+	BBB- – AA+
Investment Agreement Contracts	NR	NR
Municipal Bonds	A+	n/a

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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

##### **Credit Risk** (cont.)

The District's investment policy addresses this risk. The District limits investments to those allowed by Sections 53601 of the California Government code that address the risk allowable for each investment.

##### **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, 2014 and 2013, the District's investment portfolio was concentrated as follows:

Investment Type	Percentage of Portfolio	
	2014	2013
Guaranteed Investment Contracts:		
Natixis Funding Corporation	5%	5%
Fannie Mae	17%	23%
Corporate Medium Term Notes	19%	18%
Federal Farm Credit Bank Notes	11%	10%
Freddie Mac	13%	13%

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  
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(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, 2014, 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	\$ 9,880	\$ -	\$ 9,880	\$ -
Fannie Mae	38,954	4,026	34,928	-
Federal Farm Credit Bank Notes	26,809	-	26,809	-
Freddie Mac	30,619	2,002	28,617	-
Corporate Medium Term Notes	45,217	8,127	37,090	-
LAIF	23,705	23,705	-	-
Money Market Fund	31,386	31,386	-	-
Municipal Bonds	2,020	-	2,020	-
<b>Totals</b>	<b>\$ 208,590</b>	<b>\$ 69,246</b>	<b>\$ 139,344</b>	<b>\$ -</b>

As of December 31, 2013, 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	\$ 7,840	\$ -	\$ 7,840	\$ -
Fannie Mae	58,869	-	58,869	-
Federal Farm Credit Bank Notes	26,616	-	26,616	-
Freddie Mac	32,498	-	32,498	-
Corporate Medium Term Notes	45,794	425	45,369	-
LAIF	25,448	25,448	-	-
Money Market Fund	13,886	13,886	-	-
U.S. Treasury Notes	18,184	14,001	4,183	-
<b>Totals</b>	<b>\$ 229,135</b>	<b>\$ 53,760</b>	<b>\$ 175,375</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, 2014 and 2013  
(Dollars in Thousands)

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

### *FIDUCIARY FUND INVESTMENTS*

#### *Custodial Credit Risk*

#### **Deposits**

As of December 31, 2014 and 2013, \$2,424 and \$2,869, 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, 2014 and 2013, the Plan's investments were rated as follows:

Investment Type	Standard & Poors	
	2014	2013
Publicly Traded Domestic Stocks	NR	NR
Publicly Traded International Stocks	NR	NR
REIT	NR	NR
Hedge Funds	NR	NR
EFA Index Fund	n/a	NR
Asset Backed Securities	AAA – BB	AA+ – BB, n/a
Commercial Mortgage Backed Securities	AAA – B+	AAA – B+, n/a
Freddie Mac Pool	n/a	n/a
Fannie Mae Pool	AA+ – AA-	AA+ – AA-, n/a
Corporate Notes	AAA – B	AAA – B, NR
Corporate and Foreign Bonds	AA- – CCC+	AAA – B
Financials	AA+ – B-	AA+ – B-
Industrials	A+ – B-	A+ – CCC
Private Placements	AA- – B	A – B-
Private Placements- Asset Backed	AAA – AA-	AAA – AA-, n/a
U.S. Government Treasury	AA+	AA+, n/a

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the owner of the investment, the Plan limits investments in certain securities to those that met 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. Bankers 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. Non Investment Grade securities may be purchased up to a maximum of 20% of the portfolio value. The preceding table shows the Standard and Poor's (S&P) credit ratings of the Plan's deposits and investments, at December 31, 2014 and 2013.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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

##### **Concentration of Credit Risk**

At December 31, 2014 and 2013, 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, 2014, 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	\$ 6,414	\$ -	\$ 2,159	\$ 4,255
Commercial Mortgage Backed Securities	128	-	128	-
Freddie Mac Pool	127	-	-	127
Fannie Mae Pool	11,720	-	-	11,720
Corporate Bonds/Notes:				
Others	27,115	189	9,758	17,168
Private Placements	1,704	-	892	812
U.S. Government Treasury	7,119	-	4,935	2,184
<b>Totals</b>	<b>\$ 54,327</b>	<b>\$ 189</b>	<b>\$ 17,872</b>	<b>\$ 36,266</b>

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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

#### *Interest Rate Risk* (cont.)

As of December 31, 2013, 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	\$ 2,607	\$ -	\$ 2,102	\$ 505
Commercial Mortgage Backed Securities	4,021	-	-	4,021
Freddie Mac Pool	591	-	-	591
Fannie Mae Pool	7,500	-	179	7,321
Corporate Bonds/Notes:				
Financial Institutions	4,407	246	1,570	2,591
Industrials	7,822	147	2,018	5,657
Others	13,956	236	8,720	5,000
Private Placements	1,884	-	476	1,408
Private Placements-Asset Backed	1,148	-	-	1,148
U.S. Government Treasury	2,109	-	677	1,432
<b>Totals</b>	<b>\$ 46,045</b>	<b>\$ 629</b>	<b>\$ 15,742</b>	<b>\$ 29,674</b>

The Plan has restrictions as to the maturities of some of the investments and has a formal policy that allocates investments to manage 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, 2014 and 2013  
(Dollars in Thousands)

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

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

##### ***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.

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, 2014 and 2013 is summarized in the following table.

Currency by Investment and Fair Value	2014	2013
Australian Dollar	\$ 1,395	\$ 685
Brazilian Real	114	172
Canadian Dollar	-	358
Euro	5,331	8,218
British Pound	4,045	4,597
Hong Kong Dollar	347	113
Japanese Yen	3,912	5,017
Mexican Peso	21	186
New Zealand Dollar	1,391	564
Russian Rouble	51	-
South Korean Won	519	536
Swedish Krona	278	371
Norway Krone	-	186
Swiss Franc	860	657
Other	379	-
	<u>\$ 18,643</u>	<u>\$ 21,660</u>
Total Investment Fair Value	<u>\$ 18,643</u>	<u>\$ 21,660</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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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## NOTE 4 – RESTRICTED ASSETS

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### *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.

### *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 2014 or 2013.

	Carrying Value as of Year-end	
	2014	2013
Restricted Accounts		
Project fund	\$ 15,610	\$ 16,484
Reserve fund	39,581	38,982
Redemption fund	10,969	11,312
Domestic water and reserve contingency fund	867	856
Total Restricted Accounts	<u>\$ 67,027</u>	<u>\$ 67,601</u>

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

A summary of changes in capital assets for 2014 follows:

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets, not being depreciated/amortized				
Land and land rights	\$ 35,008	\$ 1	\$ -	\$ 35,009
Intangibles assets, not being depreciated/amortized	5,262	-	-	5,262
Total Capital Assets Not Being Depreciated/Amortized	40,270	1	-	40,271
Capital assets being depreciated/amortized				
Intangible assets, being depreciated/ amortized	45,231	-	-	45,231
Electric system	815,913	18,186	169	833,930
Domestic water plant	108,774	-	-	108,774
Irrigation system	48,594	1,822	-	50,416
General and administrative facilities	68,523	3,171	673	71,021
Total Capital Assets Being Depreciated/Amortized	1,087,035	23,179	842	1,109,372
Total Capital Assets	1,127,305	23,180	842	1,149,643
Less: Accumulated depreciation/amortization	(518,098)	(32,975)	(780)	(550,293)
Construction in progress	97,127	36,968	22,986	111,109
Net Capital Assets	\$ 706,334	\$ 27,173	\$ 23,048	\$ 710,459

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

A summary of changes in capital assets for 2013 follows:

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital assets, not being depreciated/amortized				
Land and land rights	\$ 32,269	\$ 2,739	\$ -	\$ 35,008
Intangibles assets, not being depreciated/amortized	5,262	-	-	5,262
Total Capital Assets Not Being Depreciated/Amortized	37,531	2,739	-	40,270
Capital assets being depreciated/amortized				
Intangible assets, being depreciated/ amortized	45,546	-	315	45,231
Electric system	804,079	12,087	253	815,913
Domestic water plant	108,774	-	-	108,774
Irrigation system	48,472	122	-	48,594
General and administrative facilities	65,817	2,740	34	68,523
Total Capital Assets Being Depreciated/Amortized	1,072,688	14,949	602	1,087,035
Total Capital Assets	1,110,219	17,688	602	1,127,305
Less: Accumulated depreciation/amortization	(483,410)	(34,939)	(251)	(518,098)
Construction in progress	101,864	12,295	17,032	97,127
Net Capital Assets	\$ 728,673	\$ (4,956)	\$ 17,383	\$ 706,334

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

## **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, 2014 and 2013:

	2014	2013
M-S-R Public Power Agency	\$ (35,135)	\$ (44,090)
Transmission Agency of Northern California (TANC)	\$ 2,912	\$ 3,573

### ***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 2014 and 2013, the District incurred purchased power costs of \$65,364 and \$68,074, respectively, in connection with these M-S-R resources. At December 31, 2014 and 2013, the District had a payable of \$5,679 and \$6,124, 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:

	2014	2013
Total assets	\$ 234,883	\$ 242,318
Total deferred outflows of resources	9,868	12,655
Total Assets and Deferred Outflows	\$ 244,751	\$ 254,973
Total liabilities	\$ 315,020	\$ 343,154
Total net position	(70,269)	(88,181)
Total Liabilities and Net Position	\$ 244,751	\$ 254,973
Changes in Net Position During the Year	\$ 17,910	\$ 27,739

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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### ***M-S-R PUBLIC POWER AGENCY (cont.)***

The long term debt of the Agency, which totals \$263,895 and \$290,330 at December 31, 2014 and 2013, 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 \$19,422 and \$20,460 for December 31, 2014 and 2013, respectively.

### ***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 2014 and 2013, the District incurred purchased gas costs of \$7,392 and \$5,813, respectively, in connection with the Authority. At December 31, 2014 and 2013, the District had a payable of \$731 and \$591, respectively, for purchased gas and project related expenses.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

#### ***M-S-R ENERGY AUTHORITY (cont.)***

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

	2014	2013
Total Assets	<u>\$ 904,640</u>	<u>\$ 904,684</u>
Total liabilities	\$ 904,640	\$ 904,684
Total net position	<u>-</u>	<u>-</u>
 Total Liabilities and Net Position	 <u>\$ 904,640</u>	 <u>\$ 904,684</u>
 Changes in Net Position During the Year	 <u>\$ -</u>	 <u>\$ -</u>

The long term debt of the Authority totaled \$901,620 at December 31, 2014 and 2013. The Authority did not make any principal payments in 2014 or 2013. The District's portion of the Authority's interest payments during the year were \$13,211 in 2014 and 2013.

#### ***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. As of July 1, 2014, through a 25-year layoff agreement and the termination of a layoff between MID and some of the other TANC members, the District has a 23.5% ownership interest in TANC for a net total scheduling entitlement of 320 MW. As a result of the 2014 25-year layoff agreement, the District assumed the debt payment associated with the acquisition of approximately 25 MW of additional COTP transfer capability. 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 2014 and 2013, the District incurred transmission costs of \$10,819 and \$9,692, 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, 2013, the District has a long-term payable of \$469 to TANC relating primarily to certain non-cash expenses of TANC. This liability is included in other liabilities in the accompanying balance sheet. In 2014, the District has a receivable from TANC in the amount of \$5,244 included in other current assets in the accompanying balance sheet. In 2006, the District began selling excess transmission capabilities from the COTP transmission lines through TANC, as agent of the District. The District recognized \$1,108 and \$593 in revenues from transmission sales in the 2014 and 2013, respectively.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

#### ***TRANSMISSION AGENCY OF NORTHERN CALIFORNIA (TANC) (cont.)***

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

	<u>2014</u> (unaudited)	<u>2013</u> (unaudited)
Total Assets and Deferred Outflows of Resources	\$ 403,860	\$ 420,237
Total liabilities and deferred inflows of resources	\$ 390,800	\$ 404,122
Total net position	<u>13,060</u>	<u>16,115</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 \$ 403,860	 \$ 420,237
 Changes in Net Position for 6 Months Ended	 \$ 2	 \$ 2

The long term debt of TANC (unaudited), which totals \$317,882 and \$347,582 at December 31, 2014 and 2013, 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 \$9,799 and \$9,217 for December 31, 2014 and 2013, respectively.

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

The District and three other California municipal utilities formed BANC in 2009. One new member joined in 2013. 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.

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

	<u>2014</u>	<u>2013</u>
Total Assets	\$ 543	\$ 391
Total liabilities	\$ 543	\$ 391
Total net position	<u>-</u>	<u>-</u>
 Total Liabilities and Net Position	 \$ 543	 \$ 391
 Changes in Net Position During the Year	 \$ -	 \$ -

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
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## **NOTE 6 – INVESTMENT IN PUBLIC POWER AGENCIES (cont.)**

### ***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, 2014 and 2013 and for the years then ended is as follows:

	2014	2013
<b>Assets</b>		
Current assets	\$ 7,987	\$ 7,961
Other noncurrent assets	13,256	14,014
Debt service installment receivable, less current portion	217,027	221,035
<b>Total Assets</b>	<b>238,270</b>	<b>243,010</b>
<b>Deferred Outflows of Resources</b>		
	29,706	20,178
<b>Total Assets and Deferred Outflows of Resources</b>	<b>267,976</b>	<b>263,188</b>
<b>Liabilities and Net Position</b>		
Current liabilities	7,656	7,636
Derivative financial instruments	27,913	17,921
Long-term debt	232,274	237,522
Other noncurrent liabilities	133	109
Net position	-	-
<b>Total Liabilities and Net Position</b>	<b>267,976</b>	<b>263,188</b>
<b>Revenues and Expenses</b>		
Revenues:		
Debt service contributions	9,774	10,914
Interest income	450	387
Other non-operating income	1,328	1,332
<b>Total Revenues</b>	<b>11,552</b>	<b>12,633</b>
Interest expense	(11,552)	(12,633)
Change in net position	-	-
<b>NET POSITION, Beginning of Year</b>	-	-
<b>NET POSITION, END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash Flows</b>		
Net cash used by noncapital financing activities	\$ (1,275)	\$ (3,935)
Net cash provided by investing activities	4,623	424
Net change in cash and cash equivalents	3,348	(3,511)
CASH AND CASH EQUIVALENTS – Beginning of the Year	5,117	8,628
<b>CASH AND CASH EQUIVALENTS – END OF THE YEAR</b>	<b>\$ 8,465</b>	<b>\$ 5,117</b>

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(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 12/31/14
2/26/98	1998D Domestic Water Bonds	9/1/22	4.75 – 5.50%	\$ 94,715	\$ -
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	77,690
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 Refunding Revenue Bonds	7/1/26	3.85 – 5.00	125,380	115,940
7/23/11	2011B Electric System Refunding Revenue Bonds	7/1/13	2.00	16,075	-
8/31/11	2011C Electric System Refunding 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	88,275
10/25/12	2012B Electric System Refunding Revenue Bonds	7/1/13	1.00	2,790	-
8/14/13	2013G Domestic Water Refunding Revenue Bonds	9/11/22	4.75 – 5.13	43,270	39,300

The 1998D Domestic Water Bonds were refunded with the 2013G Domestic Water Refunding Revenue Bonds during 2013.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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## 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, 2014 and 2013, the District has recorded a liability of \$1,555 and \$1,296, 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>2014</u>	<u>2013</u>
Principal and interest payments	\$ 53,656	\$ 53,644
Gross revenues	\$ 396,963	\$ 384,195
Total remaining principal and interest	\$ 1,018,807	\$ 1,071,160
Percent of future gross revenues	10%	10%
<u>Domestic Water System</u>		
Principal and interest payments	\$ 10,223	\$ 6,577
Gross revenues	\$ 17,322	\$ 17,903
Total remaining principal and interest	\$ 212,404	\$ 222,617
Percent of future gross revenues	53%	52%

The District is in compliance with required bond covenants.

## MODESTO IRRIGATION DISTRICT

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### 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>
2015	\$ 25,745	\$ 38,520	\$ (1,301)	\$ 62,964
2016	26,320	37,334	(1,301)	62,353
2017	27,530	36,084	(1,266)	62,348
2018	28,815	34,795	(1,228)	62,382
2019	30,730	33,343	(1,186)	62,887
2020 - 2024	155,455	142,955	(5,373)	293,037
2025 - 2029	161,790	104,286	(5,224)	260,852
2030 - 2034	165,040	62,377	(5,113)	222,304
2035 - 2039	117,225	20,725	(2,821)	135,129
2040	6,620	477	(152)	6,945
<b>Total Requirements</b>	<b><u>\$ 745,270</u></b>	<b><u>\$ 510,896</u></b>	<b><u>\$ (24,965)</u></b>	<b><u>\$ 1,231,201</u></b>

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions were effective March 1, 2013 for qualified bonds including the District's 2010A series Bonds. The District received a reduced interest subsidy payment in October 2013 due to budget sequestration by the federal government. In 2014 and 2013, the District recognized \$1,328 and \$1,332, respectively, in revenues for its Build America Bonds, as a component of other non-operating income, net in the statements of revenues, expenses and changes in net position. Federal subsidies for these bonds will be reduced by 7.3% through the end of the federal fiscal year (September 30, 2015) or convening U.S. Congressional action, at which time the sequestration rate is subject to change.

The District had outstanding debt obligations totaling \$47,865 and \$100,075 at December 31, 2014 and 2013, which were defeased and excluded from the District's long-term debt.

#### *CURRENT REFUNDING*

On August 14, 2013, bonds in the amount of \$43,270 were issued with an average interest rate of 4.95% to refund \$52,620 of outstanding bonds with an average interest rate of 4.83%. The net proceeds were used to prepay the outstanding debt service requirements on the old bonds.

The cash flow requirements on the old bonds prior to the current refunding was \$66,361 from 2013 through 2023. The cash flow requirements on the new bonds are \$54,758 from 2014 through 2022. The current refunding resulted in an economic gain of \$5,459.

# MODESTO IRRIGATION DISTRICT

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**NOTE 7 – LONG-TERM DEBT (cont.)**

***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:

	2014	2013
Carrying amount	\$ 745,270	\$ 769,535
Fair value	821,666	803,801

***LONG-TERM OBLIGATION SUMMARY***

Long-term obligation activity for the year ended December 31, 2014 is as follows:

	1/1/14 Balance	Additions	Reductions	12/31/14 Balance	Due Within One Year
Domestic water					
revenue bonds	\$ 136,460	\$ -	\$ 3,970	\$ 132,490	\$ 4,110
Certificate of participation	285,860	-	10,000	275,860	10,440
Revenue bonds	347,215	-	10,295	336,920	11,195
Unamortized debt discount	(2,759)	-	(110)	(2,649)	-
Unamortized premium	31,796	-	5,267	26,529	-
Other liabilities	13,856	3,113	276	16,693	-
Derivative financial					
instruments	19,758	11,037	-	30,795	2,177
Equity interest in M-S-R	44,090	-	8,955	35,135	-
	<u>\$ 876,276</u>	<u>\$ 14,150</u>	<u>\$ 38,653</u>	<u>\$ 851,773</u>	<u>\$ 27,922</u>

Long-term obligation activity for the year ended December 31, 2013 is as follows:

	1/1/13 Balance	Additions	Reductions	12/31/13 Balance	Due Within One Year
Domestic water					
revenue bonds	\$ 145,810	\$ 43,270	\$ 52,620	\$ 136,460	\$ 3,970
Certificate of participation	295,445	-	9,585	285,860	10,295
Revenue bonds	358,730	-	11,515	347,215	10,000
Unamortized debt discount	(3,656)	-	(897)	(2,759)	-
Unamortized premium	30,901	5,707	4,812	31,796	-
Other liabilities	18,144	1,181	5,469	13,856	-
Derivative financial					
instruments	36,264	-	16,506	19,758	367
Equity interest in M-S-R	57,960	-	13,870	44,090	-
	<u>\$ 939,598</u>	<u>\$ 50,158</u>	<u>\$ 113,480</u>	<u>\$ 876,276</u>	<u>\$ 24,632</u>

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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## 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.

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of December 31, 2014 (amounts in thousands; gains shown as positive amounts, losses as negative).

2014 Change in Fair Value		Fair Value, End of 2014		Notional (Thousands)
Classification	Amount	Classification	Amount	

#### **Effective Cash Flow Hedges**

##### Interest Rate Derivatives:

Pay-fixed swaps, interest rate	Deferred Outflow	\$ (9,992)	Derivative	\$ (27,913)	\$ 93,190
<b>Energy Derivatives:</b>					
Forward contracts	Deferred Outflow	442	Derivative	(907)	31 MWh
Pay-fixed swaps, natural gas	Deferred Outflow	(1338)	Derivative	(1,849)	1,950 mmBtu
Options Contracts	Deferred Outflow	(149)	Derivative	(126)	660 mmBtu

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(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, 2013 (amounts in thousands; gains shown as positive amounts, losses as negative).

	2013 Change in Fair Value		Fair Value, End of 2013		Notional (Thousands)
	Classification	Amount	Classification	Amount	
<b>Effective Cash Flow Hedges</b>					
Interest Rate Derivatives:					
Pay-fixed swaps, interest rate	Deferred Outflow	\$ 14,269	Derivative	\$ (17,921)	\$ 93,190
Energy Derivatives:					
Forward contracts	Deferred Outflow	383	Derivative	(1,349)	62 MWh
Pay-fixed swaps, natural gas	Deferred Outflow	1,823	Derivative	(511)	1,920 mmBtu
Options Contracts	Deferred Outflow	31	Derivative	23	660 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, 2014 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.

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.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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### NOTE 8 – DERIVATIVE INSTRUMENTS (cont.)

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

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	31 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	Oct-14	Dec-15	Collar with \$3.20/mmBtu floor, \$4.25 cap; Settle on NYMEX	n/a
Pay-fixed swaps, natural gas	Hedge cash flows on PG&E citygate gas purchases	1,950 mmBtu	Mar-13	Dec-17	Pay \$4.37-4.84/mmBtu; Receive NGI PG&E citygate price	A

Objectives and terms of the District's hedging derivative instruments that were outstanding at December 31, 2013 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	62 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-13	Dec-14	Collar with \$3.45/mmBtu floor, \$4.75 cap; Settle on NYMEX	n/a
Futures contracts, natural gas	Hedge cash flows on PG&E citygate gas purchases	1,920 mmBtu	Jun-11	Dec-16	Pay \$4.37-5.58/mmBtu; Receive NGI PG&E citygate price	A

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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## NOTE 8 – DERIVATIVE INSTRUMENTS (cont.)

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### *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.

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, 2014 and 2013, 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 counterparty failed, those value amounts could be lost. As of December 31, 2014, the District was in-the-money with certain of its counterparties; the District's only net gains were on exchange-traded instruments. As of December 31, 2013, 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 2015.

**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  
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## 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, 2014 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, 2014, all of the District’s variable-rate debt is effectively hedged.

Year Ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Payment on Derivatives</u>	<u>Total</u>
2015	\$ -	\$ 735	\$ 3,388	\$ 4,123
2016	-	735	3,388	4,123
2017	-	735	3,388	4,123
2018	-	735	3,388	4,123
2019	-	735	3,388	4,123
2020 – 2024	8,730	3,626	16,707	29,063
2025 – 2029	25,550	2,928	13,355	41,833
2030 – 2034	32,040	1,806	8,201	42,047
2035 – 2037	26,870	413	1,876	29,159
Totals	<u>\$ 93,190</u>	<u>\$ 12,448</u>	<u>\$ 57,079</u>	<u>\$ 162,717</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. The District’s 2014 Plan financial statements include the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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## **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, 2015, 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.
- > Inflationary increases of 2.50% per year.
- > Interest on employee contributions of 3% per year.

The District’s annual pension cost and net pension obligation for 2014 and 2013 were as follows:

	2014	2013
Annual required contribution	\$ 13,164	\$ 13,234
Interest on net pension (prepaid) obligation	128	129
Adjustment to annual required contribution	(146)	(147)
Annual Pension Cost	13,146	13,216
Contributions made	13,164	13,234
Increase (Decrease) in net pension obligation	(18)	(18)
Net pension obligation, beginning of period	1,851	1,869
Net Pension Obligation, End of Period	\$ 1,833	\$ 1,851

*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.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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### NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

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

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 \$13,164, \$13,234, and \$11,147 which were contributed in 2014, 2013 and 2012, respectively.

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
12/31/14	\$ 13,146	100%	\$ 1,833	\$ (18)
12/31/13	13,216	100%	1,851	(18)
12/31/12	11,147	100%	1,869	(22)

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)
1/01/15	\$ 225,078	\$ 292,904	\$ 67,826	76.8%	\$ 35,286	192.2%
1/01/14	198,971	278,227	79,256	71.5%	35,550	222.9%
1/01/13	178,800	262,062	83,282	68.2%	33,520	248.5%

#### *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 \$1,915, \$1,877, and \$1,710 for 2014, 2013, and 2012, respectively.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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## **NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)**

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### ***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 328 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, 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;
- > An assumed inflation rate of 2.5% per year;
- > Salary increases of 3.5% per year; and
- > Projected health care cost increases of 5.0% for medical plans in 2013 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).

## MODESTO IRRIGATION DISTRICT

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

#### HEALTH CARE BENEFITS (cont.)

	2014	2013
Annual required contribution	\$ 8,269	\$ 8,038
Interest on net OPEB obligation	234	238
Adjustment to annual required contribution	-	-
Annual OPEB cost (expense)	8,503	8,276
Contributions made	8,167	8,276
Increase (decrease) in net OPEB obligation	336	-
Net OPEB obligation, beginning of period	31	31
Net OPEB Obligation, End of Period	\$ 367	\$ 31

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013 and 2012 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/14	\$ 8,503	96.05%	\$ 367
12/31/13	8,276	100.00%	31
12/31/12	7,434	109.82%	31

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	\$ 24,110	\$ 107,223	\$ 83,113	22.49%	\$ 36,124	230.08%
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%

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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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

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

The required schedule of funding progress immediately following the notes to the financial statements 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.

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## NOTE 10 – COMMITMENTS

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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 2014 and 2013 totaled \$1,045 and \$1,661, 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, 2014:

2015	\$	2,922
2016		3,027
2017		3,174
2018		3,259
2019		3,351

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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## NOTE 10 – COMMITMENTS (cont.)

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### *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 2018. Total commitments under these agreements over the next five years are as follows as of December 31, 2014:

2015	\$	92,455
2016		70,607
2017		59,719
2018		54,515
2018		54,860

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## NOTE 11 – CONTINGENCIES

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### *DOMESTIC WATER PLANT LITIGATION*

Completion of the Modesto Regional Water Treatment Plant Phase Two Expansion Project (“Expansion Project”) will be delayed by approximately six 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. Financial responsibility for the costs of completing the Expansion Project, to the extent the settlements with Black & Veatch, Western Summit Constructors, Inc. and Big B Construction, Inc., do not result in sufficient funding, remains in dispute between the City and the District, and is now the subject of litigation as discussed below. An interim funding agreement created an escrow account that the City has funded to pay for the remaining construction-related costs to start-up and commission the Expansion Project. The City has reserved all rights to reimbursement for all construction related disbursements from the escrow account under its theory that the Amended and Restated Treatment and Delivery Agreement (ARTDA) requires the District to indemnify the City for all costs arising out of its or its contractor's negligence.

In connection with the District's and the City's dispute over which entity must pay for the remaining costs of construction and other related costs, the District filed a complaint against the City for declaratory relief to determine which party is responsible for these costs. The City has filed a third amended cross-complaint against the District for reimbursement of the costs in the following action:

*Modesto Irrigation District v. City of Modesto*, Stanislaus County Superior Court Case No. 2001607. Both the District and the City of Modesto are asserting claims in this action. The City of Modesto has alleged claims for declaratory relief, breach of contract, and the breach of the covenant of good faith, among others. This matter has been referred to retired Judge Silver for a court trial. Judge Silver also mediated the Black & Veatch litigation. The specific amounts at issue have not been determined and may change over time as the Expansion Project progresses. The disputed liability for funding the Expansion Project's budget shortfall is likely to be in the nine million dollar range.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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## **NOTE 11 – CONTINGENCIES (cont.)**

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### ***DOMESTIC WATER PLANT LITIGATION (cont.)***

It is the District's firm belief that the funding of the budget shortfall is legally the responsibility of the City under the ARTDA. The parties agreed to bifurcate the trial of this action with the first phase of the trial focusing on the interpretation of the ARTDA and whether the City was a third party beneficiary to the Black & Veatch and Western Summit contracts. The first phase of the trial was completed on April 23, 2015 before Judge Silver. Post hearing briefs are due on May 21, 2015 and reply briefs are due on June 4, 2015. The second phase of the trial concerning the liability and the City's alleged damages is currently scheduled for November 2, 2015 before Judge Silver.

### ***GENERAL CONTINGENCIES***

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

### ***OPEN CONTRACTS***

The District has open contracts for approximately \$9,156 for various capital and operating projects. As of December 31, 2014, approximately \$8,409 has been expended.

***Electric Purchase Contracts.*** The District has entered into numerous electric purchase contracts with amounts totaling approximately 503,000 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 \$39.15 to \$109.50 per MWh. These contracts expire periodically from July 2015 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 \$4.13 to \$5.075 per million British Thermal Units (mmbtu). The amounts total to approximately 5.2 million mmbtu and the contracts expire periodically from January 2015 through December 2017.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013  
(Dollars in Thousands)

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## NOTE 12 – RISK MANAGEMENT

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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.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Claims liability – beginning of year	\$ 721	\$ 733	\$ -
Claims accrued	139	515	932
Claims paid/other	<u>(311)</u>	<u>(527)</u>	<u>(199)</u>
Claims Liability - End of Year	<u>\$ 549</u>	<u>\$ 721</u>	<u>\$ 733</u>

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## NOTE 13 – SUBSEQUENT EVENTS

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On March 24, 2015, the Board approved an irrigation rate increase for 2015.

**REQUIRED SUPPLEMENTARY INFORMATION**

## MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)  
For the Years Ended December 31, 2014 and 2013  
(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)
1/01/13	\$ 24,110	\$ 107,223	\$ 83,113	22.49%	\$ 36,124	230.08%
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%

### 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, 2014 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)
1/01/15	\$ 225,078	\$ 292,904	\$ 67,826	76.8%	\$ 32,286	192.2%
1/01/14	198,971	278,227	79,256	71.5%	35,550	222.9%
1/01/13	178,800	262,062	83,282	68.2%	33,520	248.5%

A copy of the Modesto Irrigation District Retirement System Basic Retirement Plan fund audit may be obtained by writing to the Modesto Irrigation District, Attn: Finance & Accounting, 1231 Eleventh Street, Modesto, CA 95354.

**SUPPLEMENTARY INFORMATION**

## MODESTO IRRIGATION DISTRICT

COMBINING STATEMENTS OF FIDUCIARY NET POSITION  
As of December 31, 2014 and 2013

<b>ASSETS</b>	<i>(Dollars in Thousands)</i>					
	Basic Retirement Plan		Supplemental Retirement Plan		Total Fiduciary Funds	
	2014	2013	2014	2013	2014	2013
<b>CASH AND CASH EQUIVALENTS</b>	\$ 4,828	\$ 3,836	\$ 3	\$ 28,154	\$ 4,831	\$ 31,990
<b>RECEIVABLES</b>						
Accrued interest	353	355	12	18	365	373
Dividends	95	109	-	44	95	153
Receivable from Modesto Irrigation District	-	-	-	93	-	93
Employer contributions	-	1,963	-	-	-	1,963
					-	-
<b>INVESTMENTS AT FAIR VALUE</b>						
U.S. government obligations	11,221	9,967	-	-	11,221	9,967
Fixed income securities	43,106	36,078	-	-	43,106	36,078
Publicly traded domestic stocks	108,064	99,601	-	51,944	108,064	151,545
Publicly traded international stocks	29,876	34,922	-	11,429	29,876	46,351
Real estate investment trust	11,458	9,771	873	2,432	12,331	12,203
Stable value	-	-	5,591	-	5,591	-
Mutual funds	-	-	90,828	-	90,828	-
Hedge funds	22,914	20,665	-	-	22,914	20,665
Total Assets	231,915	217,267	97,307	94,114	329,222	311,381
<b>LESS: ACCRUED LIABILITIES</b>	901	791	-	-	901	791
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	\$ 231,014	\$ 216,476	\$ 97,307	\$ 94,114	\$ 328,321	\$ 310,590

**MODESTO IRRIGATION DISTRICT**

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
As of December 31, 2014 and 2013

	<i>(Dollars in Thousands)</i>					
	Basic Retirement Plan		Supplemental Retirement Plan		Total Fiduciary Funds	
	2014	2013	2014	2013	2014	2013
<b>ADDITIONS</b>						
Additions to (reductions from) net position attributed to:						
Investment income (loss):						
Net appreciation (depreciation) of investments	\$ 12,787	\$ 33,040	\$ 5,149	\$ 13,015	\$ 17,936	\$ 46,055
Dividend income	1,396	1,277	464	509	1,860	1,786
Interest income	2,003	2,015	61	67	2,064	2,082
Investment expenses	<u>(1,334)</u>	<u>(1,177)</u>	<u>-</u>	<u>-</u>	<u>(1,334)</u>	<u>(1,177)</u>
Net investment income (loss)	14,852	35,155	5,674	13,591	20,526	48,746
Contributions						
Employee contributions	72	25	1,915	1,877	1,987	1,902
Employer contributions	<u>13,221</u>	<u>13,464</u>	<u>1,915</u>	<u>1,877</u>	<u>15,136</u>	<u>15,341</u>
Total Contributions	<u>13,293</u>	<u>13,489</u>	<u>3,830</u>	<u>3,754</u>	<u>17,123</u>	<u>17,243</u>
Total Additions	<u>28,145</u>	<u>48,644</u>	<u>9,504</u>	<u>17,345</u>	<u>37,649</u>	<u>65,989</u>
<b>DEDUCTIONS</b>						
Deductions from net position attributed to:						
Distributions to plan members and beneficiaries	13,448	12,071	6,311	4,650	19,759	16,721
Administrative expenses	119	123	-	-	119	123
Consultant and professional services expenses	40	30	-	-	40	30
Forfeitures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total Deductions	<u>13,607</u>	<u>12,224</u>	<u>6,311</u>	<u>4,651</u>	<u>19,918</u>	<u>16,875</u>
<b>Net increase in net position held in trust for pension benefits</b>	14,538	36,420	3,193	12,694	17,731	49,114
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>						
Beginning of year	<u>216,476</u>	<u>180,056</u>	<u>94,114</u>	<u>81,420</u>	<u>310,590</u>	<u>261,476</u>
<b>END OF YEAR</b>	<u>\$ 231,014</u>	<u>\$ 216,476</u>	<u>\$ 97,307</u>	<u>\$ 94,114</u>	<u>\$ 328,321</u>	<u>\$ 310,590</u>