

MODESTO IRRIGATION DISTRICT

Modesto, California

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2015 and 2014

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, 2015 and 2014, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District and its fiduciary funds as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows, where applicable, 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

Emphasis of Matters

As discussed in Note 2, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective January 1, 2015. Our opinions are not modified with respect to this matter.

As discussed in Note 2, the District changed accounting policies and included the retiree medical fiduciary fund related to its other postemployment benefits in the accompanying statements of fiduciary net position and statements of changes in fiduciary net position effective January 1, 2015. The 2014 financial statements have been restated for this change in accounting policy. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary 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 13, 2016

MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

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 2015 and 2014 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.

2015 District Highlights and Changes

Utilizing the Modesto Irrigation District Financing Authority the District issued \$97,880,000 in Electric System Revenue Bonds Series 2015 A&B. The Series 2015A bonds for \$67,690,000 were issued to fund capital projects that include a Customer Information System, Electric System Routine Capital Projects for generation facility improvements and transmission & distribution system improvements, and funding the reserve account and cost of issuance.

- The Series 2015B for \$30,190,000 were issued for the purpose of, together with other available moneys, prepaying and refinancing a portion of the District's outstanding Series 2006A Certificates, and funding the reserve account and the cost of issuance.

The District implemented GASB 68: *Accounting and Financial Reporting for Pensions*. To the extent that the District's long-term obligation to provide pension benefits (total pension liability or TPL) is larger than the value of assets available in the plan to pay pension benefits

- (fiduciary net position or FNP), there is a net pension liability (NPL). This unfunded obligation or net pension liability is what GASB 68 requires to be brought on to the balance sheet. This entry restates the beginning Net Position and records the net pension liability of \$76,333,653 to the Balance Sheet for the first year presented.

The Board approved the adoption of GASB 62, for regulatory accounting on December 17, 2013. Regulatory accounting allows MID by resolution to set up certain future recoverable costs as a "regulatory asset" consistent with the amounts included in rates to cover annual

- payment obligations. In order to match revenue requirements with pension expenses, the Board approved staff to set up net pension liability (NPL) as a regulatory asset in order to match costs in the appropriate accounting period for ratemaking purposes. Amortization of the regulatory asset will begin in 2017 as part of the next rate evaluation.

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.

MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

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 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.

MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

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.

The following is a comparative financial summary for years ending December 31, 2015, 2014, and 2013.

Financial Summary

Balance Sheet

(\$ in thousands)

	December 31, 2015	December 31, 2014	December 31, 2013	Change from 2014 to 2015
Assets and Deferred Outflows of Resources				
Utility plant, net	\$ 716,917	\$ 710,459	\$ 706,334	\$ 6,458
Other noncurrent assets and investments	\$ 295,993	\$ 200,311	\$ 229,518	\$ 95,682
Current assets	\$ 191,671	\$ 152,628	\$ 114,042	\$ 39,043
Deferred outflows of resources	\$ 54,298	\$ 41,698	\$ 32,819	\$ 12,600
Total Assets and Deferred Outflows of Resources	\$ 1,258,879	\$ 1,105,096	\$ 1,082,713	\$ 153,783
Liabilities, Deferred Inflows of Resources, and Net Position				
Long-term debt, net	\$ 760,885	\$ 719,525	\$ 745,270	\$ 41,360
Noncurrent liabilities	\$ 171,794	\$ 104,326	\$ 106,374	\$ 67,468
Current liabilities	\$ 74,329	\$ 78,023	\$ 76,140	\$ (3,694)
Deferred inflow of resources	\$ 43,623	\$ 37,632	\$ 33,170	\$ 5,991
Net position				
Net investment in capital assets	\$ 22,611	\$ 7,403	\$ (23,711)	\$ 15,208
Unrestricted	\$ 185,637	\$ 158,187	\$ 145,470	\$ 27,450
Total Liabilities, Deferred Inflows, and Net Position	\$ 1,258,879	\$ 1,105,096	\$ 1,082,713	\$ 153,783

Statement of Revenues, Expenses, and Changes in Net Position

(\$ in thousands)

	December 31, 2015	December 31, 2014	December 31, 2013	Change from 2014 to 2015
Operating revenues	\$ 424,999	\$ 416,762	\$ 406,742	\$ 8,237
Operating expenses	\$ (361,994)	\$ (354,597)	\$ (352,638)	\$ (7,397)
Operating income (loss)	\$ 63,005	\$ 62,165	\$ 54,104	\$ 840
Non-operating Income (Expenses)				
Investment and other income, net	\$ 7,886	\$ 9,341	\$ 6,079	\$ (1,455)
Interest expense	\$ (39,545)	\$ (39,145)	\$ (40,256)	\$ (400)
Other non-operating income, net	\$ 5,077	\$ 5,453	\$ 4,500	\$ (376)
Non-operating income (expense)	\$ (26,582)	\$ (24,351)	\$ (29,677)	\$ (2,231)
Contributed Capital - Electric/Water	\$ 6,235	\$ 6,017	\$ 744	\$ 218
Change in net position	\$ 42,658	\$ 43,831	\$ 25,171	\$ (1,173)
Net position, beginning of year	\$ 165,590	\$ 121,759	\$ 96,588	\$ 43,831
Net Position, End of Year	\$ 208,248	\$ 165,590	\$ 121,759	\$ 42,658

MODESTO IRRIGATION DISTRICT

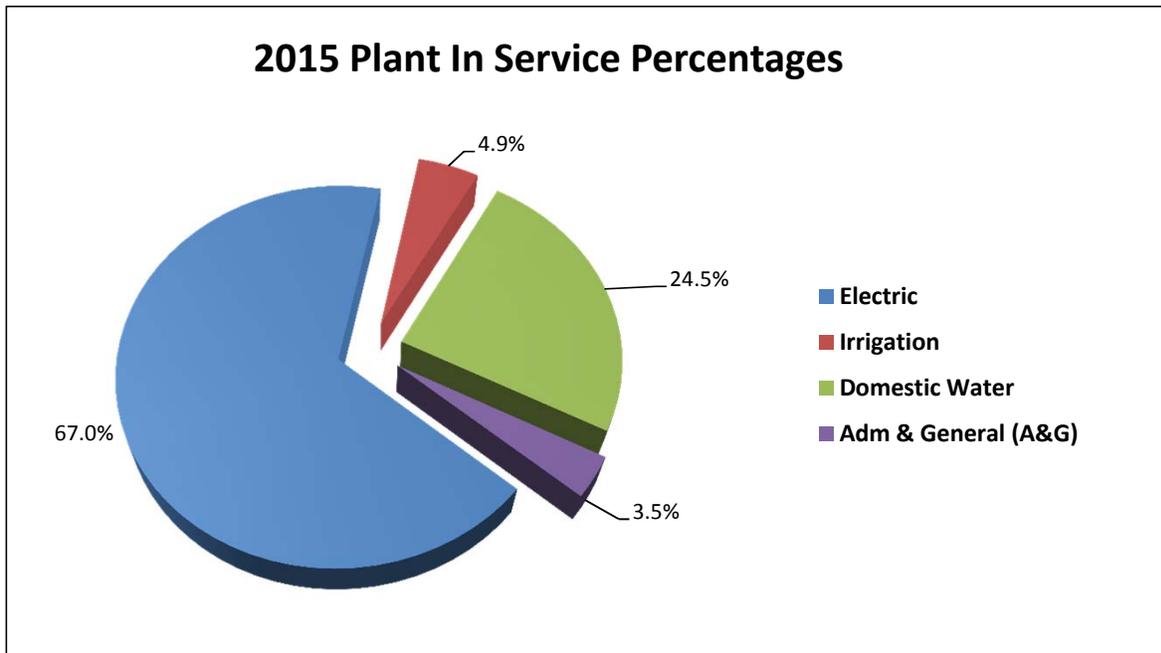
Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

ASSETS and DEFERRED OUTFLOWS

Utility Plant, net

MID has invested approximately \$716.9 million in utility plant assets net of accumulative depreciation and transferred approximately \$126.7 million of assets from construction in progress to utility plant in service in 2015. The following chart reflects the percentage breakdown of Utility Plant net of depreciation by category as of December 31, 2015.



Utility plant increased by approximately \$6.5 million in 2015 due to additions in plant and service offset by reductions in construction work in progress and depreciation.

Utility plant increased by \$4.2 million in 2014 due to additions in plant and service and construction work in progress offset by depreciation.

Other non-current assets and investments

Other non-current assets and investments increased \$95.7 million in 2015. Significant changes include an increase of \$71.1 million of bond proceeds due to the issuance of the 2015A bonds offset by \$15.7 million in project fund uses. Other significant changes include an increase in regulatory asset of \$61.3 million, and an increase in Other long-term assets of \$6.6 million due from TANC offset by the re-class from "investments – unrestricted" to "cash and cash equivalents – unrestricted" of approximately \$29.4 million. The re-class was made to allow for payments on debt, capital costs, and other cash needs.

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.

MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

Current assets

Current assets increased by approximately \$39.0 million in 2015. The increase is based on a combination of changes in the District's portfolio from long-term investments to short-term plus electric sales increasing cash. The "cash and cash equivalents" for both unrestricted and restricted had a net increase of \$41.1 million. Additional significant changes include decreases in Customer accounts receivable, net of \$0.9 million and Other current assets, net of \$1.6 million.

Current assets increased by \$43.7 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 greenhouse 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.

Deferred Outflows of Resources

In 2015 deferred outflows of resources increased by \$12.6 million. The change is due to deferred outflows related to pension increase of \$13.5 million offset by Deferred cash flow hedges of approximately \$0.3 million and Unamortized loss on advanced refunding of approximately \$0.6 million.

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.

LIABILITIES AND NET POSITION

Long-term debt

Long-term debt increased by \$41.4 million in 2015 due to issuance of the 2015 A&B Bonds offset by debt service payments.

Long-term debt decreased by \$25.8 million in 2014 due to scheduled debt service payments.

Non-current liabilities

Non-current liabilities increased by \$67.5 million in 2015 primarily due to the implementation of GASB 68 and the addition of net pension liability of \$74.5 million and an increase in Unamortized premium of \$4.4 million offset by changes in Unamortized premium discounts, Other liabilities, and Equity interest in M-S-R totaling \$11.9 million.

Non-current liabilities decreased by \$1.9 million in 2014 due to changes in derivatives financial instruments and liabilities for equity interest in M-S-R.

MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

Current liabilities

Current liabilities decreased by \$3.7 million in 2015 due to a decrease in accounts payable of \$3.8 million and Derivatives financial instrument maturing within one-year of \$0.8 offset by increases in Current liabilities payable from restricted assets of \$0.9 million.

Current liabilities remained relatively flat with a slight increase of \$1.9 million in 2014 due to 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.

Deferred inflow of resources

Deferred inflow of resources is unearned revenue which reflects the difference between the time the District bills the City of Modesto for Domestic Water and when the expense for depreciation is recovered and recorded. In 2015 the amount increased by \$6.0 million.

Net position

In 2015, the District's net investment in capital assets increased by \$15.2 million primarily due to investments in fixed assets and scheduled debt payments from current year.

Unrestricted net position increased by approximately \$27.4 million in 2015 primarily due to the increase in revenue for the current year.

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.

MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating Revenues

Changes from 2014 to 2015

In 2015 operating revenue increased by \$8.2 million or approximately 1.98%.

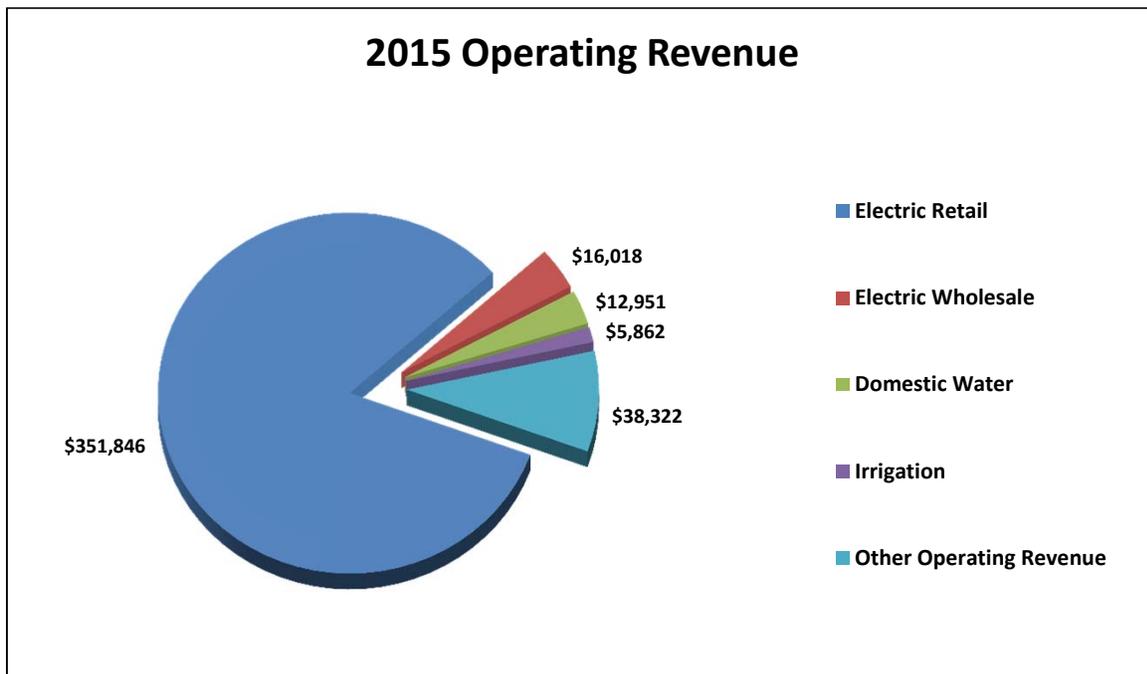
Retail electric revenue decreased by \$8.75 million or approximately 2.43%. Retail consumption has remained relatively constant with changes in revenue due to decreases in customer demand.

Wholesale electric revenue decreased by \$0.7 million or approximately 4.26%. The decrease is due to reductions in generation sold related to the operations of the Lodi Energy Center.

Domestic Water revenue increased of \$1.8 million or 16.27% due to rate changes related to the drought. Irrigation revenue increased by \$0.9 million or 18.14% due to rate changes related to the drought.

Other operating revenue includes equity in public power agencies, greenhouse gas revenue, and late charges. Other operating revenue increased by \$15.0 million or 64.26% due to equity in public power agencies, greenhouse gas revenue, and late fees.

The following is the District's 2015 operating revenue (**dollars are in thousands**):



MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

Operating Revenues

Changes from 2013 to 2014

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

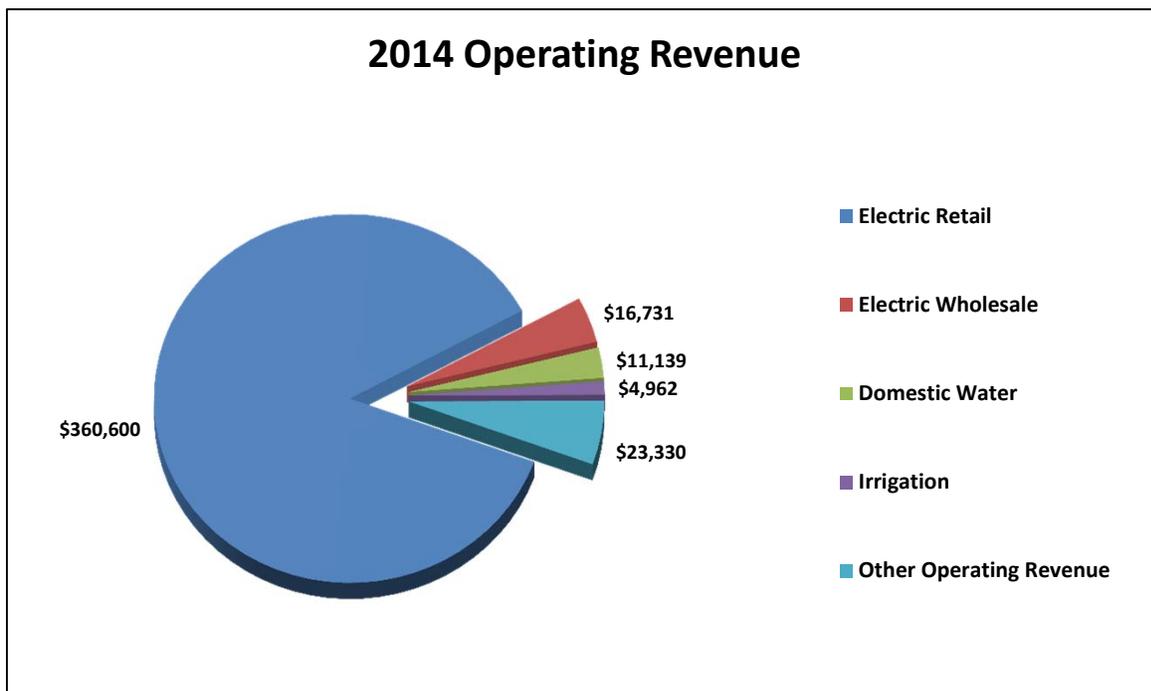
Retail electric revenue increased by \$11.7 million or approximately 3.35%. Retail consumption has remained relatively constant with changes in revenue due to an increase customers and demand.

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, 2015 and 2014 - Unaudited

Operating Expenses

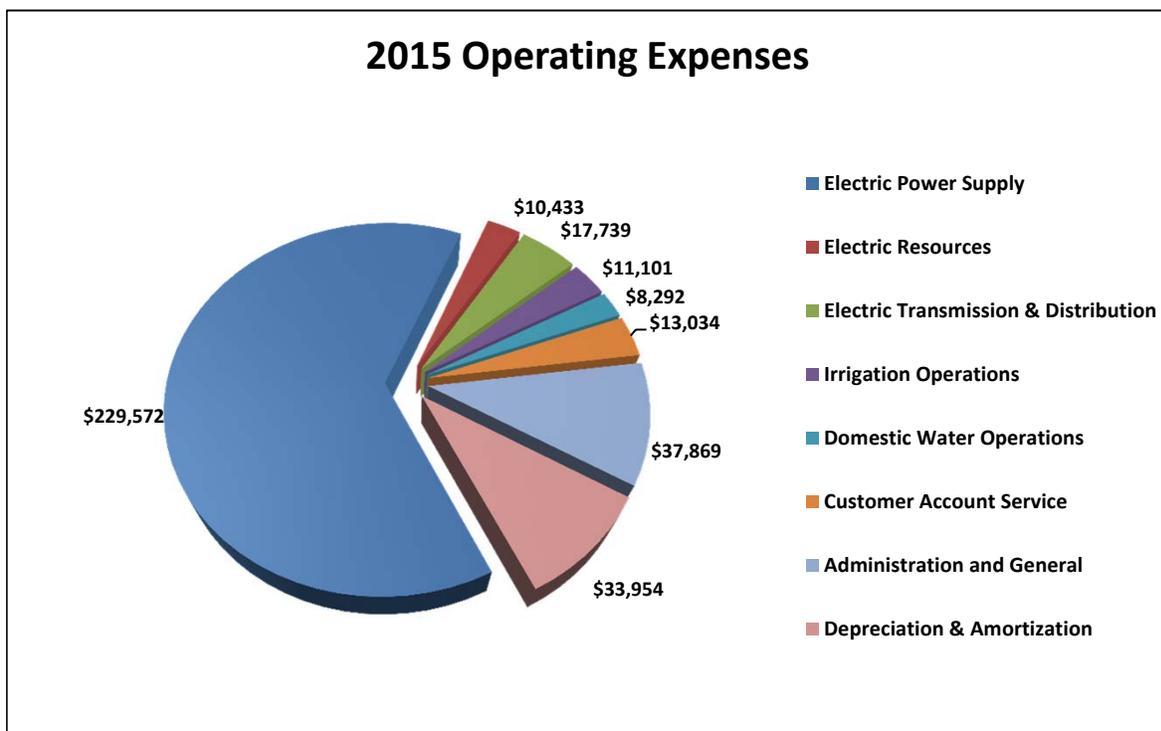
Changes from 2014 to 2015

Total operating expenses reflect an increase of approximately \$7.4 million in 2015. The increase is primarily due to increased cost for Irrigation operations, Domestic water operations, administration and general, and depreciation offset by a decrease in purchase power.

Purchased power and power generation expenses for 2015 reflect an increase of approximately \$0.7 million or approximately 0.29%. 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 approximately \$1.1 million or 14.83% for Domestic Water and \$0.4 million or 3.96% for Irrigation respectively. The increase is primarily due to increased costs in operations and maintenance.

The following depicts the 2015 operational expenses (**dollars are in thousands**):



MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

Operating Expenses

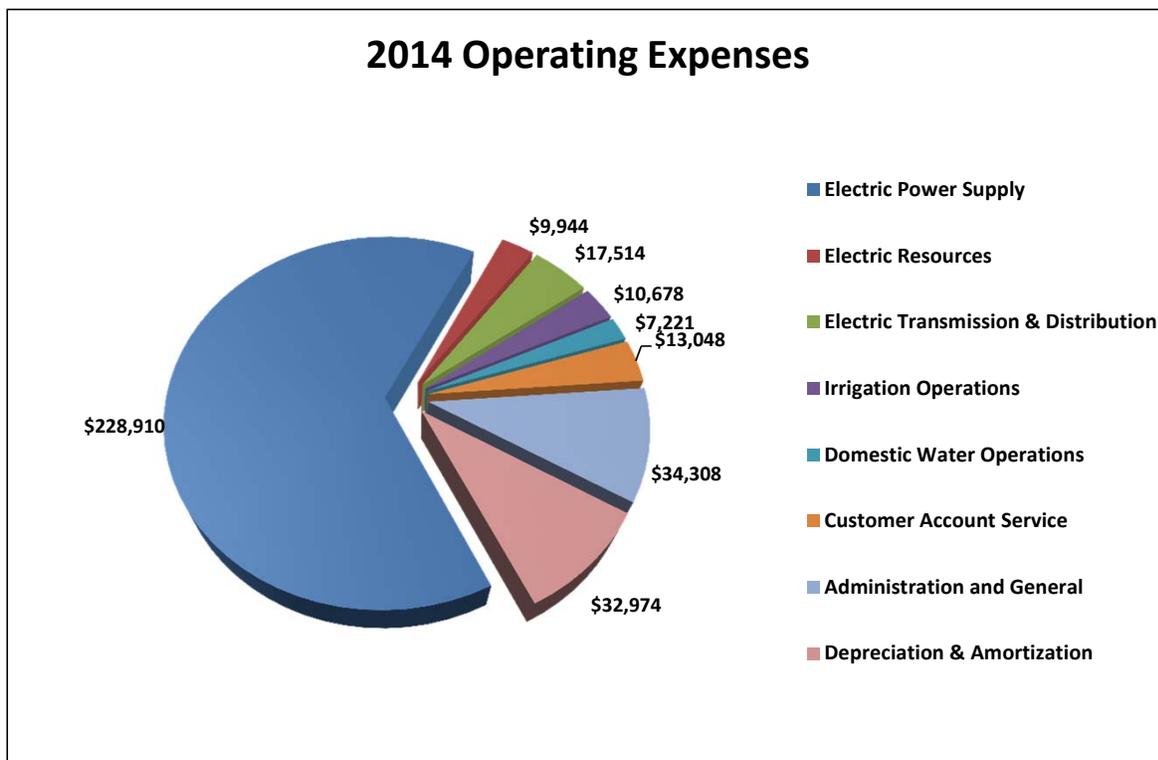
Changes from 2013 to 2014

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 \$0.18 million 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 operational expenses (**dollars are in thousands**):



MODESTO IRRIGATION DISTRICT

Management's Discussion and Analysis

Years ended December 31, 2015 and 2014 - Unaudited

Non-Operating Revenue (Expenses)

Investment income

Investment and other income decreased in 2015 by \$1.0 million due to reduction in interest on investments offset by capital contributions for Water and Electric, capitalized interest, and amortization of premium.

Investment and other income increased in 2014 by \$8.4 million due to capital contributions for Water and Electric, interest income, capitalized interest, and amortization of premium.

Interest expense

Interest expense for 2015 decreased \$0.4 million over the prior year due to reductions in principal of outstanding debt.

Interest expense for 2014 decreased \$1.2 million over the prior year due to reductions in principal of outstanding debt.

Other non-operating Income, net

Other non-operating income decreased in 2015 by \$0.4 million over the prior year due to changes 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, 2015 and 2014

	<i>(Dollars in Thousands)</i>	
	<u>2015</u>	<u>2014</u>
ASSETS AND DEFERRED OUTFLOWS		
CAPITAL ASSETS		
Plant in service	\$ 1,274,965	\$ 1,149,643
Less accumulated depreciation	<u>(582,648)</u>	<u>(550,293)</u>
Plant in service - net	692,317	599,350
Construction work in progress	<u>24,600</u>	<u>111,109</u>
Total Capital Assets	<u>716,917</u>	<u>710,459</u>
OTHER ASSETS AND INVESTMENTS		
Cash and investments - restricted	111,486	56,058
Investments - unrestricted	77,962	107,320
Interest receivable - restricted	237	317
Capital improvement fund	21,435	20,653
Regulatory costs for future recovery	67,771	6,451
Equity interest in TANC	3,872	2,912
Other long-term assets	<u>13,230</u>	<u>6,600</u>
Total Other Assets and Investments	<u>295,993</u>	<u>200,311</u>
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	105,114	62,426
Cash and cash equivalents - restricted	9,385	10,969
Interest receivable - unrestricted	752	767
Customer accounts receivable, net	33,825	34,708
Wholesale power receivables	2	76
Materials and supplies	29,751	29,573
Prepayments	3,232	2,904
Other current assets, net	<u>9,610</u>	<u>11,205</u>
Total Current Assets	<u>191,671</u>	<u>152,628</u>
Total Assets	<u>1,204,581</u>	<u>1,063,398</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred cash flow hedges - unrealized loss on derivatives	30,449	30,795
Unamortized loss on refunding	10,339	10,903
Deferred outflows related to pension	<u>13,510</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>54,298</u>	<u>41,698</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 1,258,879</u>	<u>\$ 1,105,096</u>

LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<i>(Dollars in Thousands)</i>	
	<u>2015</u>	<u>2014</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	\$ 760,885	\$ 719,525
Unamortized premium	30,929	26,529
Unamortized debt discount	(2,881)	(2,649)
Net pension liability	76,334	1,833
Other liabilities	14,216	14,860
Derivative financial instruments	29,080	28,618
Equity interest in M-S-R	24,116	35,135
Total Noncurrent Liabilities	<u>932,679</u>	<u>823,851</u>
CURRENT LIABILITIES		
Accounts payable and other accruals	32,365	36,176
Current liabilities payable from restricted assets		
Current portion of long-term debt	26,320	25,745
Interest payable	14,275	13,925
Derivative financial instruments maturing within one year	1,369	2,177
Total Current Liabilities	<u>74,329</u>	<u>78,023</u>
Total Liabilities	<u>1,007,008</u>	<u>901,874</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	<u>43,623</u>	<u>37,632</u>
NET POSITION		
Net investment in capital assets	22,611	7,403
Unrestricted	<u>185,637</u>	<u>158,187</u>
Total Net Position	<u>208,248</u>	<u>165,590</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 1,258,879</u>	<u>\$ 1,105,096</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, 2015 and 2014

	<i>(Dollars in Thousands)</i>	
	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Residential, commercial and industrial electric	\$ 351,846	\$ 360,600
Wholesale electric	16,018	16,731
Domestic water	12,951	11,139
Irrigation water	5,862	4,962
Equity in net income of public power agencies	11,979	9,076
Other operating income, net	<u>26,343</u>	<u>14,254</u>
Total Operating Revenues	<u>424,999</u>	<u>416,762</u>
OPERATING EXPENSES		
Purchased power	194,556	192,803
Power generation	35,016	36,107
Electric resources	10,433	9,944
Electric transmission and distribution	17,739	17,514
Irrigation operations	11,101	10,678
Domestic water operations	8,292	7,221
Customer account service	13,034	13,048
Administrative and general	37,869	34,308
Depreciation and amortization	<u>33,954</u>	<u>32,974</u>
Total Operating Expenses	<u>361,994</u>	<u>354,597</u>
OPERATING INCOME	<u>63,005</u>	<u>62,165</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,274	3,301
Interest expense	(39,545)	(39,145)
Capitalized interest	3,210	3,678
Amortization of debt discount	(117)	(110)
Amortization of premium	5,152	5,267
Amortization of loss on refunding	(2,019)	(2,158)
Regulatory amounts collected in rates	(614)	(637)
Other nonoperating income, net	<u>5,077</u>	<u>5,453</u>
Total Nonoperating Expenses	<u>(26,582)</u>	<u>(24,351)</u>
Change in Net Position Before Contributions	36,423	37,814
CAPITAL CONTRIBUTIONS - ELECTRIC	717	484
CAPITAL CONTRIBUTIONS - DOMESTIC WATER	<u>5,518</u>	<u>5,533</u>
CHANGE IN NET POSITION	42,658	43,831
NET POSITION - Beginning of Year	<u>165,590</u>	<u>121,759</u>
NET POSITION - END OF YEAR	<u>\$ 208,248</u>	<u>\$ 165,590</u>

See accompanying notes to financial statements.

MODESTO IRRIGATION DISTRICT

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2015 and 2014

	<i>(Dollars in Thousands)</i>	
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 404,274	\$ 402,245
Payments to suppliers for goods and services	(272,270)	(282,845)
Payments to employees for services	(42,179)	(38,951)
Net Cash Flows Provided by Operating Activities	<u>89,825</u>	<u>80,449</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Net proceeds (payments) from issuance of long-term debt obligations	73,995	-
Repayment of long-term debt	(26,145)	(24,265)
Debt issuance costs	(680)	-
Construction expenditures	(38,637)	(31,045)
Interest paid	(39,195)	(39,612)
Contributions received for construction	5,953	5,824
Net Cash Flows Used in Capital Financing Activities	<u>(24,709)</u>	<u>(89,098)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(42,007)	(22,241)
Investments sold and matured	52,677	66,474
Interest received	2,446	2,750
Net Cash Flows Provided by Investing Activities	<u>13,116</u>	<u>46,983</u>
Net Change in Cash and Cash Equivalents	78,232	38,334
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>77,668</u>	<u>39,334</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 155,900</u>	<u>\$ 77,668</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES		
Market adjustment for greenhouse gas allowances	\$ 15,122	\$ 8,806
Noncash contributions by developers	\$ 282	\$ 193
Capitalized interest	\$ 3,210	\$ 3,678
Amortization	\$ 2,402	\$ 2,362
Change in valuation of derivative financial instruments	\$ (254)	\$ 9,992
Change in arbitrage liability	\$ (471)	\$ (259)
Bond proceeds used in refunding debt	\$ (31,847)	\$ -
Unrealized gain (loss) on investments	\$ (394)	\$ 647

See accompanying notes to financial statements.

	<i>(Dollars in Thousands)</i>	
	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 63,005	\$ 62,165
Adjustments to reconcile operating income to net cash flows provided by operating activities		
Other non-operating income	5,077	5,453
Depreciation and amortization	33,954	32,974
Undistributed income from public power agencies	(11,979)	(8,294)
Change in operating assets, liabilities, and deferred inflows		
Customer accounts receivable, net	883	(1,735)
Wholesale power receivables	74	287
Other current assets, net	(5,035)	(8,721)
Materials and supplies	(178)	(6,040)
Prepayments	(328)	184
Regulatory assets	(61,254)	-
Accounts payable and other accruals	(2,094)	(3,123)
Pension related deferrals and liabilities	62,824	(18)
Unearned revenue and other liabilities	4,876	7,317
	<u>89,825</u>	<u>80,449</u>
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	\$ 89,825	\$ 80,449
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS		
Cash and cash equivalents - unrestricted	\$ 105,114	\$ 62,426
Cash and cash equivalents - restricted	9,385	10,969
Investments - unrestricted	77,962	107,320
Cash and investments - restricted	111,486	56,058
Capital improvement fund	<u>21,435</u>	<u>20,653</u>
Total Cash and Investments	325,382	257,426
Less: Noncash equivalents	<u>(169,482)</u>	<u>(179,758)</u>
CASH AND CASH EQUIVALENTS	\$ 155,900	\$ 77,668

See accompanying notes to financial statements.

MODESTO IRRIGATION DISTRICT

STATEMENTS OF FIDUCIARY NET POSITION

As of December 31, 2015 and 2014

	<i>(Dollars in Thousands)</i>	
	<u>2015</u>	<u>2014</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 5,814	\$ 5,164
RECEIVABLES		
Accrued interest	392	365
Dividends	30	95
INVESTMENTS AT FAIR VALUE		
U.S. government obligations	11,341	11,221
Fixed income securities	46,027	43,106
Publicly traded domestic stocks	100,305	108,064
Publicly traded international stocks	32,303	29,876
Real estate investment trust	12,472	12,331
Stable value	8,156	5,591
Mutual funds	125,259	126,430
Hedge funds	22,173	22,914
Total Assets	<u>364,272</u>	<u>365,157</u>
LESS: ACCRUED LIABILITIES	<u>901</u>	<u>961</u>
NET POSITION HELD IN TRUST FOR RETIREE BENEFITS	<u>\$ 363,371</u>	<u>\$ 364,196</u>

See accompanying notes to financial statements.

MODESTO IRRIGATION DISTRICT

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION As of December 31, 2015 and 2014

	<i>(Dollars in Thousands)</i>	
	<u>2015</u>	<u>2014</u>
ADDITIONS		
Additions to net position attributed to:		
Investment income:		
Net appreciation (depreciation) of investments	\$ (7,610)	\$ 19,717
Dividend income	5,910	2,648
Interest income	2,438	2,064
Investment expenses	<u>(1,234)</u>	<u>(1,334)</u>
Net investment income	(496)	23,095
Contributions		
Employee contributions	2,381	2,007
Employer contributions	21,202	23,144
Other contributions	<u>342</u>	<u>-</u>
Total Contributions	<u>23,925</u>	<u>25,151</u>
 Total Additions	 <u>23,429</u>	 <u>48,246</u>
DEDUCTIONS		
Deductions from net position attributed to:		
Distributions to plan members and beneficiaries	18,987	19,759
Medical premiums paid	5,061	5,128
Administrative expenses	171	190
Consultant and professional services expenses	<u>35</u>	<u>40</u>
Total Deductions	<u>24,254</u>	<u>25,117</u>
 Net increase (decrease) in net position held in trust for retiree benefits	 (825)	 23,129
 NET POSITION HELD IN TRUST FOR RETIREE BENEFITS		
Beginning of year	<u>364,196</u>	<u>341,067</u>
 END OF YEAR	 <u>\$ 363,371</u>	 <u>\$ 364,196</u>

See accompanying notes to financial statements.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

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

Retiree Medical Benefits Plan (an other post-employment benefit trust fund) is a single-employer defined benefit healthcare plan for all eligible retirees and their spouses.

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, 2015 and 2014
(Dollars in Thousands)

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, 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).

GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting of the District's single-employer defined benefit pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The District adopted these statements effective January 1, 2015. The District elected to follow accounting for regulatory operations and record the unfunded net pension liability as a regulatory cost for future recovery.

The District changed accounting policies and included the retiree medical fiduciary fund related to its other postemployment benefits in the accompanying statements of fiduciary net position and statements of changes in fiduciary net position effective January 1, 2015.

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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

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.

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 \$1,141 and \$2,050 as of December 31, 2015 and 2014, 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 \$751 and (\$729) at December 31, 2015 and 2014, 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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

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 and the unfunded net pension liability under GASB Statement No. 68.

OTHER CURRENT AND LONG-TERM ASSETS

The balance represents miscellaneous receivables and deposits. \$2,396 and \$1,561 of the 2015 and 2014 balances, respectively, are receivables from the City of Modesto for a domestic water pipeline project. Approximately \$2,130 and \$1,375 of the 2015 and 2014 balances, respectively, are not expected to be collected within one year. In 2015, the balance also included the net OPEB asset.

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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

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 District. At December 31, 2015 and 2014, the District recorded accrued vacation time of \$3,046 and \$2,853, respectively. The liability is included in accounts payable and other accruals in the accompanying balance sheet.

OTHER LIABILITIES

Other liabilities include the OPEB obligation in the prior year, customer meter deposits, power cost true-ups, potential rate refunds, arbitrage liability, and other miscellaneous long-term liabilities.

ASSET RETIREMENT OBLIGATIONS

The District has identified potential retirement obligations related to certain transmission, distribution and irrigation canal facilities located on properties that do not have perpetual lease rights. The District's nonperpetual leased land rights generally are renewed continuously because the District intends to utilize these facilities indefinitely. Since the timing and extent of any potential asset retirements are unknown, the fair value of any obligations associated with these facilities cannot be reasonably estimated. Accordingly, a liability has not been recorded at December 31, 2015 and 2014 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 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.

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.

NET PENSION LIABILITY

A net pension liability is recorded in accordance with GASB Statement No. 68. The liability is the difference between the actuarial total pension liability and the Plan's fiduciary net position as of the measurement date. Information to restate 2014 balances was not available. The net pension obligation reported as of December 31, 2014 is reported under GASB Statement No. 27. See Note 9 for additional information.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

LONG-TERM DEBT

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts 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.

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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

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, 2015 and 2014, unbilled revenues of \$20,025 and \$19,709, 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.

REVENUES AND EXPENSES

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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*. When they become effective, application of these standards may restate portions of these financial statements.

NOTE 3 – CASH AND INVESTMENTS

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

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

Deposits in each local and area bank are insured by the FDIC in the amount of \$250 for time and savings accounts (including NOW accounts), \$250 for interest-bearing demand deposit accounts (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 2015 and 2014.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

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, 2015 and 2014, 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, 2015 and 2014
(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, 2015 and 2014, 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	2015	2014
US Agencies Implicitly Guaranteed	\$ 103,560	\$ 106,262
Corporate Medium Term Notes	40,097	45,216
Municipal Bonds	4,064	2,020
Totals	\$ 147,721	\$ 153,498

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, 2015 and 2014, the District's investments were rated as follows:

Investment Type	Standard & Poors	
	2015	2014
LAIF	NR	NR
Money Market Mutual Funds	NR	NR
Federal Farm Credit Bank Notes	AA+	AA+
Federal Home Loan Bank Bonds	AA+	AA+
Corporate Medium Term Note – Lehman Brothers	n/a	NR
Corporate Medium Term Notes – Other	BBB+ - AA+	A- – AA+
Investment Agreement Contracts	NR	NR
Municipal Bonds	AA-	A+

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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
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NOTE 3 – CASH AND INVESTMENTS (cont.)

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

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, 2015 and 2014, the District's investment portfolio was concentrated as follows:

Investment Type	Percentage of Portfolio	
	2015	2014
Guaranteed Investment Contracts:		
Natixis Funding Corporation	4%	5%
Corporate Medium Term Notes	13%	19%
Federal Home Loan Bank Bonds	9%	4%
Federal Farm Credit Bank Notes	7%	11%

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

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, 2015, 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	\$ 27,783	\$ 1,998	\$ 25,785	\$ -
Fannie Mae	30,957	1,998	28,959	-
Federal Farm Credit Bank Notes	20,875	1,995	18,880	-
Freddie Mac	23,945	10,001	13,944	-
Corporate Medium Term Notes	40,097	15,094	25,003	-
LAIF	49,697	49,697	-	-
Money Market Fund	81,858	81,858	-	-
Municipal Bonds	4,064	-	4,064	-
Totals	<u>\$ 279,276</u>	<u>\$ 162,641</u>	<u>\$ 116,635</u>	<u>\$ -</u>

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 (cont.)

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	-
Totals	\$ 208,590	\$ 69,246	\$ 139,344	\$ -

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.

FIDUCIARY FUND INVESTMENTS

Custodial Credit Risk

Deposits

As of December 31, 2015 and 2014, \$3,883 and \$2,507, 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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

Credit Risk

As of December 31, 2015 and 2014, the Plan's investments were rated as follows:

Investment Type	Standard & Poors	
	2015	2014
Publicly Traded Domestic Stocks	NR	NR
Publicly Traded International Stocks	NR	NR
REIT	NR	NR
Hedge Funds	NR	NR
EFA Index Fund	-	n/a
Asset Backed Securities	AAA – A, n/a	AAA – BB
Commercial Mortgage Backed Securities	-	AAA – B+
Freddie Mac Pool	n/a	n/a
Fannie Mae Pool	n/a	AA+ – AA-
Corporate Notes	AA+ – BB+	AAA – B
Corporate and Foreign Bonds	AA- – B-, n/a, NR	AA- – CCC+
Financials	AA+ – B-	AA+ – B-
Industrials	A+ – B-	A+ – B-
Private Placements	A+ – BB-, NR	AA- – B
Private Placements- Asset Backed	AAA – AA-	AAA – AA-
U.S. Government Treasury	n/a	AA+
Mortgage Backed Obligation	A	-
Income Funds*	NR	NR

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, 2015 and 2014.

*As of December 31, 2015 and 2014, the Plans are invested in income funds which are not rated, but are significantly invested in U.S. Government Treasury and Agency investments.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

Concentration of Credit Risk

At December 31, 2015 and 2014, 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, 2015, 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	\$ 9,512	\$ -	\$ 3,367	\$ 6,145
Corporate and & Foreign Bonds	19,060	25	6,093	12,942
Commercial Mortgage Backed Securities	107	-	107	-
Freddie Mac Pool	2,622	-	-	2,622
Fannie Mae Pool	4,736	-	-	4,736
Corporate Bonds/Notes:				
Others	9,148	-	6,171	2,977
Private Placements	2,085	-	1,397	688
U.S. Government Treasury	10,098	-	7,077	3,021
Totals	\$ 57,368	\$ 25	\$ 24,212	\$ 33,131

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

Interest Rate Risk (cont.)

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
Totals	\$ 54,327	\$ 189	\$ 17,872	\$ 36,266

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.

As of December 31, 2015 and 2014, the retiree medical plan had fair value investments in the PIMCO funds of \$10,034 and \$9,938, respectively. As of December 31, 2015 PIMCO funds' weighted average maturity (in years) was 8.40. The information as of December 31, 2014 was not available.

As of December 31, 2015 and 2014, the retiree medical plan had fair value investments in the Dodge & Cox funds of \$3,969 and \$3,992, respectively. As of December 31, 2015 the funds' maturity diversification was as follows:

Investment Maturities in Years	Percentage
Less than 1 Year	4.7%
1 – 5 Years	50.0
5 – 10 Years	23.5
10 – 15 Years	2.7
15 – 20 Years	5.0
20 – 25 Years	8.7
25 and Over	5.4

The information as of December 31, 2014 was not available.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(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, 2015 and 2014 is summarized in the following table.

Currency by Investment and Fair Value	2015	2014
Australian Dollar	\$ 625	\$ 1,395
Brazilian Real	1,413	1,046
Euro	8,624	10,028
British Pound	7,070	6,629
Hong Kong Dollar	293	347
Japanese Yen	3,930	4,304
Mexican Peso	443	158
New Zealand Dollar	1,195	1,391
Norway Krone	-	2,894
Russian Rouble	819	484
South Korean Won	1,040	490
Swedish Krona	430	413
Swiss Franc	2,720	2,601
Other	5,719	379
	<u>\$ 34,321</u>	<u>\$ 32,559</u>
Total Investment Fair Value	<u>\$ 34,321</u>	<u>\$ 32,559</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.

In addition, the Plan investments in international equity open-ended mutual funds stated at fair value as of December 31, 2015 and 2014 were:

Mutual Fund Name	2015 Fair Value	2014 Fair Value
Oppenheimer International Growth Fund	\$ 2,785	\$ 1,532
Brandes International Equity Fund	2,639	1,665
	<u>\$ 5,424</u>	<u>\$ 3,197</u>
Totals	<u>\$ 5,424</u>	<u>\$ 3,197</u>

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 4 – RESTRICTED ASSETS

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:

	Carrying Value as of Year-End	
	2015	2014
Restricted Accounts		
Project fund	\$ 71,367	\$ 15,610
Reserve fund	39,242	39,581
Redemption fund	9,385	10,969
Domestic water and reserve contingency fund	877	867
	<u> </u>	<u> </u>
Total Restricted Accounts	\$ 120,871	\$ 67,027

DEBT RELATED ACCOUNTS

- 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 2015 or 2014.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2015 follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated/amortized				
Land and land rights	\$ 35,009	\$ 4	\$ -	\$ 35,013
Intangibles assets, not being depreciated/amortized	5,262	-	-	5,262
Total Capital Assets Not Being Depreciated/Amortized	40,271	4	-	40,275
Capital assets being depreciated/amortized				
Intangible assets, being depreciated/ amortized	45,231	-	-	45,231
Electric system	833,930	16,860	791	849,999
Domestic water plant	108,774	107,003	-	215,777
Irrigation system	50,416	709	-	51,125
General and administrative facilities	71,021	2,386	849	72,558
Total Capital Assets Being Depreciated/Amortized	1,109,372	126,958	1,640	1,234,690
Total Capital Assets	1,149,643	126,962	1,640	1,274,965
Less: Accumulated depreciation/amortization	(550,293)	(33,954)	(1,599)	(582,648)
Construction in progress	111,109	40,170	126,679	24,600
Net Capital Assets	\$ 710,459	\$ 133,178	\$ 126,720	\$ 716,917

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 5 – CHANGES IN CAPITAL ASSETS (CONT.)

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

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, 2015 and 2014:

	2015	2014
M-S-R Public Power Agency	\$ (24,116)	\$ (35,135)
Transmission Agency of Northern California (TANC)	\$ 3,872	\$ 2,912

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 6 – INVESTMENT IN PUBLIC POWER AGENCIES

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 the Agency. The District's deficit investment derives from its proportionate interest in the Agency's deficit and the District's commitment to repay its share of the Agency's debt, among other costs and obligations, through its take-or-pay commitment. The generation activities of the Agency 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). The Agency 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 the Agency commensurate with its 50% interest in the Agency, and receives 50% of the electrical power generated by the Agency. In 2006, the Agency 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.

On July 31, 2015, the Agency entered into an agreement with the other participants of the San Juan Plant to exit its interest in the project effective December 31, 2017. At December 31, 2015, the Agency's net book value of the total construction work in progress and plant in service related to the San Juan project was \$78,328. The balance of the related bonds outstanding at December 31, 2015 was \$222,365. The District will remain liable for its proportionate share of the Agency's long-term debt related to the San Juan project.

In addition, the Agency has entered into a purchase and sale agreement dated August 31, 2015 for the sale of its interest in the Southwest Transmission Project at a sale price of \$60,000. The closing date of the sale is expected to be in the second quarter of 2016. At December 31, 2015, the Agency's net book value of the Southwest Transmission Project was \$40,757 and the balance on the bonds outstanding related to the Southwest Transmission Project was \$11,970.

During 2015 and 2014, the District incurred purchased power costs of \$61,503 and \$65,364, respectively, in connection with these Agency resources. At December 31, 2015 and 2014, the District had a payable of \$6,550 and \$5,679, respectively, to the Agency for its proportionate share of project related expenditures.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

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

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

	2015	2014
Total assets	\$ 226,066	\$ 234,883
Total deferred outflows of resources	7,415	9,868
Total Assets and Deferred Outflows	\$ 233,481	\$ 244,751
Total liabilities	\$ 281,712	\$ 315,020
Total net position	(48,231)	(70,269)
Total Liabilities and Net Position	\$ 233,481	\$ 244,751
Changes in Net Position During the Year	\$ 22,038	\$ 17,910

The long term debt of the Agency, which totals \$234,335 and \$263,895 at December 31, 2015 and 2014, respectively, is secured by a pledge and assignment of the net electric revenues of the Agency and are supported by take-or-pay commitments, which are an operating expense of the Participant's electric system. The District's portion of the Agency's principal and interest payments during the year were \$20,349 and \$19,422 for December 31, 2015 and 2014, 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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

M-S-R ENERGY AUTHORITY (cont.)

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 2015 and 2014, the District incurred purchased gas costs of \$4,239 and \$7,392, respectively, in connection with the Authority. At December 31, 2015 and 2014, the District had a payable of \$374 and \$731, respectively, for purchased gas and project related expenses.

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

	2015	2014
Total Assets	\$ 904,661	\$ 904,640
Total liabilities	\$ 904,661	\$ 904,640
Total net position	-	-
Total Liabilities and Net Position	\$ 904,661	\$ 904,640
Changes in Net Position During the Year	\$ -	\$ -

The long term debt of the Authority totaled \$901,620 at December 31, 2015 and 2014. The Authority did not make any principal payments in 2015 or 2014. The District's portion of the Authority's interest payments during the year were \$13,211 in 2015 and 2014.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

TRANSMISSION AGENCY OF NORTHERN CALIFORNIA (TANC)

TANC is a joint power agency that owns a portion of the California Oregon Transmission Project (COTP), a transmission line between central California and southern Oregon. As of July 1, 2015, 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 2015 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 2015 and 2014, the District incurred transmission costs of \$11,828 and \$10,819, 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, 2015 and 2014, the District has a receivable from TANC in the amount of \$10,493 and \$5,224, respectively, included in other long-term 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 \$2,330 and \$1,108 in revenues from transmission sales in the 2015 and 2014, respectively.

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

	<u>2015</u> (unaudited)	<u>2014</u> (unaudited)
Total Assets and Deferred Outflows of Resources	\$ 392,239	\$ 403,860
Total liabilities and deferred inflows of resources	\$ 377,201	\$ 390,800
Total net position	<u>15,038</u>	<u>13,060</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 392,239</u>	 <u>\$ 403,860</u>
 Changes in Net Position for 6 Months Ended	 <u>\$ -</u>	 <u>\$ 2</u>

The long term debt of TANC (unaudited), which totals \$286,964 and \$317,882 at December 31, 2015 and 2014, 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 \$9,790 and \$9,799 for December 31, 2015 and 2014, respectively.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

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:

	2015	2014
Total Assets	\$ <u>824</u>	\$ <u>543</u>
Total liabilities	\$ 824	\$ 543
Total net position	<u>-</u>	<u>-</u>
Total Liabilities and Net Position	\$ <u>824</u>	\$ <u>543</u>
Changes in Net Position During the Year	\$ <u>-</u>	\$ <u>-</u>

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY

The Authority is a joint power authority that provides financing for public improvements of the District, and is accounted for as a component unit of the District. The revenues and expenses of the Authority are eliminated upon consolidation with the District. The Authority's summary financial information as of December 31, 2015 and 2014 and for the years then ended is as follows:

	2015	2014
Assets		
Current assets	\$ 11,579	\$ 7,987
Other noncurrent assets	87,667	13,256
Debt service installment receivable, less current portion	<u>240,814</u>	<u>217,027</u>
Total Assets	340,060	238,270
Deferred Outflows of Resources	<u>30,439</u>	<u>29,706</u>
Total Assets and Deferred Outflows of Resources	<u>370,499</u>	<u>267,976</u>
Liabilities and Net Position		
Current liabilities	11,247	7,656
Derivative financial instruments	27,659	27,913
Long-term debt	331,418	232,274
Other noncurrent liabilities	175	133
Net position	<u>-</u>	<u>-</u>
Total Liabilities and Net Position	<u>370,499</u>	<u>267,976</u>

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

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

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY (cont.)

	2015	2014
Revenues and Expenses		
Revenues:		
Debt service contributions	\$ 11,601	\$ 9,774
Interest income	397	450
Other non-operating income	1,323	1,328
Total Revenues	13,321	11,552
Interest expense	(13,321)	(11,552)
Change in net position	-	-
NET POSITION, Beginning of Year	-	-
NET POSITION, END OF YEAR	\$ -	\$ -
Cash Flows		
Net cash used by noncapital financing activities	\$ 74,017	\$ (1,275)
Net cash provided by investing activities	(7,498)	4,623
Net change in cash and cash equivalents	66,519	3,348
CASH AND CASH EQUIVALENTS – Beginning of the Year	8,465	5,117
CASH AND CASH EQUIVALENTS – END OF THE YEAR	\$ 74,984	\$ 8,465

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
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NOTE 7 – LONG-TERM DEBT

LONG-TERM DEBT

The following bonds have been issued:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/15
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	37,450
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	104,745
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
8/14/13	2013G Domestic Water Refunding Revenue Bonds	9/11/22	4.75 – 5.13	43,270	35,190
7/15/15	2015A Electric System Revenue Bond	10/1/40	4.00 – 5.00	67,690	67,690
7/15/15	2015B Electric System Refunding Revenue Bond	10/1/36	2.00 – 5.00	30,190	29,790

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, 2015 and 2014, the District has recorded a liability of \$2,026 and \$1,555, respectively, for a potential arbitrage rebate to the IRS. Arbitrage rebates are due five years from the issuance date of the tax exempt debt.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
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NOTE 7 – LONG-TERM DEBT (CONT.)

GENERAL DEBT TERMS (cont.)

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>2015</u>	<u>2014</u>
Principal and interest payments	\$ 56,009	\$ 53,656
Gross revenues	<u>\$ 399,313</u>	<u>\$ 396,963</u>
Total remaining principal and interest	<u>\$ 1,087,770</u>	<u>\$ 1,018,807</u>
Percent of future gross revenues	<u>11%</u>	<u>10%</u>
<u>Domestic Water System</u>		
Principal and interest payments	\$ 10,187	\$ 10,223
Gross revenues	<u>\$ 20,098</u>	<u>\$ 17,322</u>
Total remaining principal and interest	<u>\$ 202,208</u>	<u>\$ 212,404</u>
Percent of future gross revenues	<u>40%</u>	<u>53%</u>

The District is in compliance with required bond covenants.

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>
2016	\$ 26,320	\$ 40,502	\$ (1,328)	\$ 65,494
2017	27,570	39,252	(1,293)	65,529
2018	28,865	37,954	(1,254)	65,565
2019	30,785	36,493	(1,211)	66,067
2020	31,690	34,964	(1,166)	65,488
2021 - 2025	167,165	150,357	(5,384)	312,138
2026 - 2030	177,680	108,100	(5,333)	280,447
2031 - 2035	182,895	61,741	(4,989)	239,647
2036 - 2040	<u>114,235</u>	<u>17,568</u>	<u>(2,200)</u>	<u>129,603</u>
Total Requirements	<u>\$ 787,205</u>	<u>\$ 526,931</u>	<u>\$ (24,158)</u>	<u>\$ 1,289,978</u>

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014 (Dollars in Thousands)

NOTE 7 – LONG-TERM DEBT (cont.)

LONG-TERM DEBT REPAYMENT (cont.)

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions were effective March 1, 2014 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 2015 and 2014, the District recognized \$1,323 and \$1,328, 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 6.8% through the end of the federal fiscal year (September 30, 2016) or convening U.S. Congressional action, at which time the sequestration rate is subject to change.

The District had outstanding debt obligations totaling \$75,310 and \$47,865 at December 31, 2015 and 2014, which were defeased and excluded from the District's long-term debt.

ADVANCE REFUNDING

On July 15, 2015 bonds in the amount of \$30,190 were issued with an average interest rate of 4.82% to advance refund \$29,800 of series 2006A outstanding bonds with an average interest rate of 4.78%. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of the future debt payments on the old bonds. As a result, those portions of the old bonds are considered defeased and the liability for that portion of the old bonds has been removed from the balance sheet.

The cash flow requirements on the old bonds prior to the current refunding was \$49,892 from 2015 through 2036. The cash flow requirements on the new bonds are \$48,544 and refunding receipts of \$1,564 from 2015 through 2036. The advance refunding resulted in an economic gain of \$1,870.

FAIR VALUE

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

	<u>2015</u>	<u>2014</u>
Carrying amount	\$ 787,205	\$ 745,270
Fair value	872,412	821,666

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
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NOTE 7 – LONG-TERM DEBT (cont.)

LONG-TERM OBLIGATION SUMMARY

Long-term obligation activity for the year ended December 31, 2015 is as follows:

	1/1/15 Balance	Additions	Reductions	12/31/15 Balance	Due Within One Year
Domestic water					
revenue bonds	\$ 132,490	\$ -	\$ 4,110	\$ 128,380	\$ 4,320
Certificate of participation	275,860	-	40,240	235,620	4,795
Revenue bonds	336,920	97,880	11,595	423,205	17,205
Unamortized debt discount	(2,649)	(356)	(124)	(2,881)	-
Unamortized premium	26,529	10,034	5,634	30,929	-
Net pension liability	1,833	76,334	1,833	76,334	-
Other liabilities	14,860	576	1,220	14,216	-
Derivative financial					
instruments	30,795	-	346	30,449	1,369
Equity interest in M-S-R	35,135	-	11,019	24,116	-
	<u>30,795</u>	<u>-</u>	<u>346</u>	<u>30,449</u>	<u>1,369</u>
	<u>35,135</u>	<u>-</u>	<u>11,019</u>	<u>24,116</u>	<u>-</u>
Totals	<u>\$ 851,773</u>	<u>\$ 184,468</u>	<u>\$ 75,873</u>	<u>\$ 960,368</u>	<u>\$ 27,689</u>

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	-
Net pension obligation	1,851	-	18	1,833	-
Other liabilities	12,005	3,113	258	14,860	-
Derivative financial					
instruments	19,758	11,037	-	30,795	2,177
Equity interest in M-S-R	44,090	-	8,955	35,135	-
	<u>44,090</u>	<u>-</u>	<u>8,955</u>	<u>35,135</u>	<u>-</u>
Totals	<u>\$ 876,276</u>	<u>\$ 14,150</u>	<u>\$ 38,653</u>	<u>\$ 851,773</u>	<u>\$ 27,922</u>

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
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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, 2015 (amounts in thousands; gains shown as positive amounts, losses as negative).

2015 Change in Fair Value		Fair Value, End of 2015		Notional (Thousands)
Classification	Amount	Classification	Amount	

Effective Cash Flow Hedges

Interest Rate Derivatives:

Pay-fixed swaps, interest rate	Deferred Outflow	\$ 254	Derivative	\$ (27,659)	\$ 93,190
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Energy Derivatives:

Pay-fixed swaps, natural gas	Deferred Outflow	(879)	Derivative	(2,729)	2,256 mmBtu
Options Contracts	Deferred Outflow	64	Derivative	(62)	540 mmBtu

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(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, 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
Energy Derivatives:					
Forward contracts	Deferred Outflow	442	Derivative	(907)	31 MWh
Pay-fixed swaps, natural gas	Deferred Outflow	(1,338)	Derivative	(1,849)	1,950 mmBtu
Options Contracts	Deferred Outflow	(149)	Derivative	(126)	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, 2015 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
Option contracts, natural gas	Hedge cash flows on PG&E citygate gas purchases	540 mmBtu	Oct-16	Dec-16	Collar with \$2.60/mmBtu floor, \$3.25 cap; Settle on NYMEX	n/a
Pay-fixed swaps, natural gas	Hedge cash flows on PG&E citygate gas purchases	2,256 mmBtu	Mar-13	Dec-18	Pay \$3.80-4.84/mmBtu; Receive NGI PG&E citygate price	Between A To BBB

Objectives and terms of the District's hedging derivative instruments that were outstanding at December 31, 2014 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	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

MODESTO IRRIGATION DISTRICT

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

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, 2015 and 2014, 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, 2015 and 2014, 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 intended 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 2016.

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, 2015 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, 2015, 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>
2016	\$ -	\$ 958	\$ 3,165	\$ 4,123
2017	-	958	3,165	4,123
2018	-	958	3,165	4,123
2019	-	958	3,165	4,123
2020	-	958	3,165	4,123
2021 - 2025	13,380	4,628	15,272	33,280
2026 – 2030	26,740	3,545	11,600	41,885
2031 – 2035	33,535	2,008	6,560	42,103
2036 – 2037	19,535	276	902	20,713
Totals	<u>\$ 93,190</u>	<u>\$ 15,247</u>	<u>\$ 50,159</u>	<u>\$ 158,596</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

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective January 1, 2015. The cumulative effect of the change in net position due to the change in accounting standard, or the initial unfunded liability is shown as a regulatory cost for future recovery on the balance sheet. The District plans to recover these costs in a future rate study. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by the plan. For this reason, prior year pension footnote disclosures are included under GASB Statement No. 27

MODESTO IRRIGATION DISTRICT

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

BASIC RETIREMENT PLAN (cont.)

Plan Description. The Basic Retirement Plan (the Plan) is a single-employer defined benefit pension plan for eligible employees. All employees who normally work 20 hours per week or more and at least five months per year, except leased employees, employees whose work classification is excluded from coverage under the Plan by a collective bargaining agreement, and individuals employed in work experience and student intern classifications, are eligible. There are three tiers of employees covered. Tier 1 is comprised of Pre-2006 eligible employees. Tier 2 is comprised of Post-2005 eligible employees. Tier 3 is comprised of Post-2012 eligible employees. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. The District issues publicly available stand-alone financial statements and required supplementary information of the Plan that may be obtained by contacting the District. The fiduciary net position reported in these statements has been determined on the same basis as the plan.

Benefits Provided. Benefits provided for Tier 1 and 2 employees include monthly benefits of 2.75% of the final average monthly earnings multiplied by a credited service factor. Tier 3 employees receive a monthly benefit equal to a percentage between 1% if retirement occurs at age 52 and 2.5% if retirement occurs at age 67 or older multiplied by a credited service factor. For ages 52 through 67, the percentage is between 1% and 2.5%. Vesting periods are 5 years for all tiers. Normal retirement age is 60 for Tier 1 and 2 employees with reduced early retirement options at 55 with 5 years of service. Tier 3 employees may retire at age 52, but cost of living adjustments are only given to employees that retire on or after age 55 with 5 years of service. Final average compensation is calculated based on the highest average monthly earnings during the 36 consecutive months out of the last 120 months for Tier 1 and Tier 2 employees. Tier 3 employee benefits are calculated as the highest average monthly earnings received during the 36 consecutive month's immediately preceding separation of service. Cost of living adjustments are provided for all employees who have been receiving benefits for more than one year excepted as noted above. The cost of living adjustment is based on the increase in the U.S. Labor Department cost of living index, but it may not exceed 4%. Tier 3 employees that leave the District's service may withdraw his or her contribution if they are not yet vested. Benefit terms may be amended by the Board of Directors.

Employees Covered by Benefit Terms. At the December 31, 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	361
Inactive employees entitled to but not yet receiving benefits	51
Active employees	<u>420</u>
Total	<u>832</u>

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

BASIC RETIREMENT PLAN (cont.)

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

The funding policy currently established by the Committee requires the District to contribute an amount set forth in the Recommendation Regarding Total Contributions presented in the Plan actuary's Actuarial report. The Required Annual Contributions set forth in the Recommendation regarding total contributions presented in the Actuarial Report are \$12,057, \$13,164, and \$13,234 which were contributed in 2015, 2014 and 2013, respectively.

The District was the sole participating employer and contributing entity. Prior to 1989, participants were allowed to make voluntary contributions and prior to 1977, participating contributions were required. The Plan was amended as of January 1, 2013; new member employees are required to contribute an amount equal to one-half of the defined benefits' normal cost through payroll deductions.

Net Pension Liability. The employer's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- > Inflation: 2.50%
- > Salary Increases: 4.00%
- > Investment rate of return: 7.50%, net of investment expense, including inflation.
- > Mortality rates used were based on the RP-2000 Blue Collar Generational Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on 75% of Scale AA. This mortality rate is for both pre-retirement and post-retirement.
- > The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study in 2015.
- > The plan's investment policy does not establish long-term expected rates of return for each asset class. The target allocation for each major asset class are summarized in the following table:

MODESTO IRRIGATION DISTRICT

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

BASIC RETIREMENT PLAN (cont.)

<u>Asset Class</u>	<u>Target Allocation</u>
Cash	0%
Fixed Income and US Governmental Obligations	25%
International Stocks	15%
Domestic Stocks	45%
Hedge Funds	10%
Public Real Estate	5%
Opportunistic Portfolio	0%

Discount Rate. The discount rate used to measure the total pension liability is 7.50%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed-upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/14	\$ 293,095	\$ 216,476	\$ 76,619
Changes for the Year			
Service cost	5,996	-	5,996
Interest on total pension liability	21,705	-	21,705
Employer contributions	-	13,221	(13,221)
Employee contributions	-	72	(72)
Net investment income	-	14,852	(14,852)
Benefit payments, including employee refunds	(13,448)	(13,448)	-
Administrative expense	-	(159)	159
Net Changes	14,253	14,538	(285)
Balances as of 12/31/15	\$ 307,348	\$ 231,014	\$ 76,334

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 9 – EMPLOYEE RETIREMENT PLAN (cont.)

BASIC RETIREMENT PLAN (cont.)

Changes in Net Pension Liability (cont.)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.50%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Employer's net pension liability	\$ 114,580	\$ 76,334	\$ 44,167

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Modesto Irrigation District Retirement System Basic Retirement Plan report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended December 31, 2015, the employer recognized pension expense of \$11,482. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 1,453	\$ -
Contributions subsequent to the measurement date *	12,057	-
Totals	\$ 13,510	\$ -

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending December 31, 2016.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

BASIC RETIREMENT PLAN (cont.)

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Expense
2016	\$ 363
2017	363
2018	363
2019	364
2020	-

Payable to the Pension Plan. At December 31, 2015, the employer reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015.

The 2015 required contribution was determined as part of the January 1, 2015 actuarial valuation using the entry age normal cost method. This method seeks to provide a level pattern of cost as a percentage of salary throughout an employee's working lifetime. A level percentage of payroll amortization is used, with an amortization period not to exceed 30 years.

Required Disclosures Under GASB No. 27

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.

The District's annual pension cost and net pension obligation for 2014 was as follows:

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

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

BASIC RETIREMENT PLAN (cont.)

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)

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%

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 \$1,895, \$1,915, and \$1,877 for 2015, 2014, and 2013, respectively.

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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

HEALTH CARE BENEFITS (cont.)

Funding Policy. Currently 329 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 a brokerage service. 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 3.5% per year; and
- > Projected health care cost increases of 7.5% in 2015 and decreasing by 0.5% each year until 2021 and thereafter when it stays at 4.5%.

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).

	2015	2014
Annual required contribution	\$ 6,982	\$ 8,269
Interest on net OPEB obligation	101	234
Adjustment to annual required contribution	(88)	-
Annual OPEB cost (expense)	6,995	8,503
Contributions made	7,968	8,167
Increase (decrease) in net OPEB obligation	(973)	336
Net OPEB obligation, beginning of period	367	31
Net OPEB Obligation (Asset), End of Period	\$ (606)	\$ 367

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

HEALTH CARE BENEFITS (cont.)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2014 and 2013 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
12/31/15	\$ 6,995	113.91%	\$ (606)
12/31/14	8,503	96.05%	367
12/31/13	8,276	100.00%	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)
1/01/15	\$ 35,057	\$ 105,120	\$ 70,063	33.35%	\$ 35,339	198.26%
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%

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

The required schedule of funding progress immediately following the notes 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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 10 – COMMITMENTS

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

THE CITY AND COUNTY OF SAN FRANCISCO POWER PURCHASE AGREEMENT

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

The current LTESA provides Class One power for the District at a minimum schedule of 40% of the capacity for the month. The District's purchases under the LTESA in 2015 and 2014 totaled \$4,394 and \$1,045, respectively. While the current LTESA expired 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, 2015:

2016	\$	2,018
2017		4,024
2018		4,131
2019		4,247
2020		4,473

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 2020. Total commitments under these agreements over the next five years are as follows as of December 31, 2015:

2016	\$	85,239
2017		71,632
2018		65,080
2019		55,607
2020		56,082

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 11 – CONTINGENCIES

DOMESTIC WATER PLANT LITIGATION

The Modesto Regional Water Treatment Plant Phase Two Expansion Project (“Expansion Project”) is now substantially complete, but has not yet been formally accepted by the District. Delay in the Expansion Project’s completion, as well as remedial action which the District has been required to undertake, has resulted in multi-million dollar cost overruns. 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., did 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 own negligence or that of its contractors.

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.

It is the District and its counsel’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. On July 20, 2015, Judge Silver issued his Phase One ruling, finding in favor of MID with regard to its indemnity obligations vis a vis the City under the ARTDA. Phase Two of the trial is currently scheduled for November 2, 2016. The City and the District are engaged in protracted negotiations regarding a global resolution of these disputes and long term cooperation.

RATE SUBSIDY LITIGATION

Two class action lawsuits have been filed against MID, *Thomas v. Modesto Irrigation Dist.* and *Hobbs v. Modesto Irrigation Dist.* both of which were filed in March 2016. The basis for these lawsuits stems from Proposition 26, which California voters adopted on November 2, 2010. The lawsuits allege MID uses funds collected from electric customers to subsidize its irrigation and water operations and are illegally taxing electric customers under Propositions 26. Both lawsuits are class action complaints seeking refunds of alleged illegal taxes. The lawsuits are in the early stages, and MID has filed motions to strike in each of these actions. At this time, MID is unable to predict the outcome of the litigation or the extent to which remedies against it may be available if MID is ultimately unsuccessful in the litigation. MID is vigorously defending these matters.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 11 – CONTINGENCIES (cont.)

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 \$17,738 for various capital and operating projects. As of December 31, 2015, approximately \$6,611 has been expended.

Electric Purchase Contracts. The District has entered into numerous electric purchase contracts with amounts totaling approximately 1,116 gigawatt hours (GWh) 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 \$24.50 to \$109.50 per MWh. These contracts expire periodically from June 2016 through September 2018. 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 May 2016 through December 2037.

Gas Purchase Contracts. The District has entered into numerous gas purchase contracts for the purpose of fixing the rate on the District's natural gas purchases for its gas-fueled power plants. These gas purchase contracts result in the District paying fixed rates ranging from \$3.44 to \$5.08 per million British Thermal Units (mmbtu). The amounts total to approximately 8.8 million mmbtu and the contracts expire periodically from January 2016 through December 2025.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance. The District is self insured for general and liability claims up to \$1,000. The District also has excess liability insurance for claims over \$1,000. There was no significant decrease in coverage over the prior year. Settled claims have not exceeded insurance coverage in each of the past three years. Claims are paid as they are incurred. Total accrual and payment history is shown below.

	2015	2014	2013
Claims liability – beginning of year	\$ 549	\$ 721	\$ 733
Claims accrued	431	139	515
Claims paid/other	(420)	(311)	(527)
Claims Liability - End of Year	<u>\$ 560</u>	<u>\$ 549</u>	<u>\$ 721</u>

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

NOTE 13 – SUBSEQUENT EVENTS

On November 17, 2015 the Board approved electric rates for 2016.

On April 19, 2016 the Board approved water rates for 2016.

REQUIRED SUPPLEMENTARY INFORMATION

MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
For the Years Ended December 31, 2015 and 2014
(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)
1/01/15	\$ 35,057	\$ 105,119	\$ 70,063	33.35%	\$ 35,339	198.26%
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%

Basic Retirement Plan Required Supplementary Information – GASB Statement No. 27

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, 2015 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%

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.

MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

As of December 31, 2015

(Dollars in Thousands)

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios - GASB Statement No. 68

	<u>2015</u>
Total Pension Liability	
Service cost	\$ 5,996
Interest	21,705
Benefit payments including employee refunds	<u>(13,448)</u>
Net Change in Total Pension Liability	<u>14,253</u>
Total Pension Liability beginning	<u>293,095</u>
Total Pension Liability ending	<u>\$ 307,348</u>
 Plan Fiduciary Net Position	
Contributions-employer	\$ 13,221
Contributions-employee	72
Net Investment income	14,852
Benefit payments including employee refunds	(13,448)
Administrative expense	<u>(159)</u>
Net Change in Plan Fiduciary Net Position	<u>14,538</u>
 Plan Fiduciary Net Position beginning	<u>216,476</u>
Plan Fiduciary Net Position ending	<u>\$ 231,014</u>
 Employer Net Pension Liability	<u>\$ 76,334</u>
 Plan Fiduciary Net Position as a percentage of the Total Pension Liability	75.16%
 Covered Employee Payroll	\$ 35,448
Employer's Net Pension Liability as a percentage of covered employee payroll	215.34%

Notes to schedule:

GASB 68 requires that 10 years of comparative data be shown for all the data presented above. However, as this information is unavailable for the periods preceding 2015, only the data since 2015 is being presented.

MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

As of December 31, 2015

(Dollars in Thousands)

Schedule of Employer's Contributions - GASB Statement No. 68

		2015	
Actuarial determined contributions *	\$	12,057	
Contributions in relation to the actuarially determined contribution		12,057	
Contribution deficiency (excess)	\$	-	
 Covered employee payroll	 \$	 38,211	
 Contributions as a percentage of covered employee payroll			 32%

Notes to Schedule

Valuation date	December 31, 2014
Actuarial cost method	Entry Age Normal
Amortization method	30-year rolling, level-dollar
Remaining amortization period	
Asset valuation method	10 year smoothed
Inflation	2.5%
Salary increases	4.0%
Investment rate of return	7.5%
Normal retirement age - tier 1 and tier 2	60
Normal retirement age - tier 3	55
Mortality	RP-2000 Blue Collar Generational Mortality Table

* Actuarially Determined Contribution is found in the actuarial valuation report on page 2.

GASB 68 requires that 10 years of comparative data be shown for all the data presented above. However, as this information is unavailable for the periods preceding 2015, only the data since 2015 is being presented.

SUPPLEMENTARY INFORMATION

MODESTO IRRIGATION DISTRICT

COMBINING STATEMENTS OF FIDUCIARY NET POSITION
As of December 31, 2015 and 2014

	<i>(Dollars in Thousands)</i>							
	Basic Retirement Plan		Supplemental Retirement Plan		Retiree Medical Plan		Total Fiduciary Funds	
	2015	2014	2015	2014	2015	2014	2015	2014
ASSETS								
CASH AND CASH EQUIVALENTS	\$ 5,440	\$ 4,828	\$ 166	\$ 3	\$ 208	\$ 333	\$ 5,814	\$ 5,164
RECEIVABLES								
Accrued interest	392	353	-	12	-	-	392	365
Dividends	30	95	-	-	-	-	30	95
INVESTMENTS AT FAIR VALUE								
U.S. government obligations	11,341	11,221	-	-	-	-	11,341	11,221
Fixed income securities	46,027	43,106	-	-	-	-	46,027	43,106
Publicly traded domestic stocks	100,305	108,064	-	-	-	-	100,305	108,064
Publicly traded international stocks	32,303	29,876	-	-	-	-	32,303	29,876
Real estate investment trust	11,490	11,458	982	873	-	-	12,472	12,331
Stable value	-	-	8,156	5,591	-	-	8,156	5,591
Mutual funds	-	-	87,353	90,828	37,906	35,602	125,259	126,430
Hedge funds	22,173	22,914	-	-	-	-	22,173	22,914
Total Assets	229,501	231,915	96,657	97,307	38,114	35,935	364,272	365,157
LESS: ACCRUED LIABILITIES	790	901	-	-	111	60	901	961
NET POSITION HELD IN TRUST FOR RETIREE BENEFITS	\$ 228,711	\$ 231,014	\$ 96,657	\$ 97,307	\$ 38,003	\$ 35,875	\$ 363,371	\$ 364,196

MODESTO IRRIGATION DISTRICT

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
As of December 31, 2015 and 2014

	<i>(Dollars in Thousands)</i>							
	Basic Retirement Plan		Supplemental Retirement Plan		Retiree Medical Plan		Total Fiduciary Funds	
	2015	2014	2015	2014	2015	2014	2015	2014
ADDITIONS								
Additions to (reductions from) net position attributed to:								
Investment income (loss):								
Net appreciation (depreciation) of investments	\$ (2,327)	\$ 12,787	\$ (4,566)	\$ 5,149	\$ (717)	\$ 1,781	\$ (7,610)	\$ 19,717
Dividend income	886	1,396	4,263	464	761	788	5,910	2,648
Interest income	2,437	2,003	-	61	1	-	2,438	2,064
Investment expenses	(1,234)	(1,334)	-	-	-	-	(1,234)	(1,334)
Net investment income (loss)	(238)	14,852	(303)	5,674	45	2,569	(496)	23,095
Contributions								
Employee contributions	465	72	1,895	1,915	21	20	2,381	2,007
Employer contributions	12,120	13,221	1,895	1,915	7,187	8,008	21,202	23,144
Other contributions	-	-	342	-	-	-	342	-
Total Contributions	12,585	13,293	4,132	3,830	7,208	8,028	23,925	25,151
Total Additions	12,347	28,145	3,829	9,504	7,253	10,597	23,429	48,246
DEDUCTIONS								
Deductions from net position attributed to:								
Distributions to plan members and beneficiaries	14,508	13,448	4,479	6,311	-	-	18,987	19,759
Medical premiums paid	-	-	-	-	5,061	5,128	5,061	5,128
Administrative expenses	107	119	-	-	64	71	171	190
Consultant and professional services expenses	35	40	-	-	-	-	35	40
Total Deductions	14,650	13,607	4,479	6,311	5,125	5,199	24,254	25,117
Net increase in net position held in trust for retiree benefits	(2,303)	14,538	(650)	3,193	2,128	5,398	(825)	23,129
NET POSITION HELD IN TRUST FOR RETIREE BENEFITS								
Beginning of year	231,014	216,476	97,307	94,114	35,875	30,477	364,196	341,067
END OF YEAR	\$ 228,711	\$ 231,014	\$ 96,657	\$ 97,307	\$ 38,003	\$ 35,875	\$ 363,371	\$ 364,196