

MODESTO IRRIGATION DISTRICT

Modesto, California

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2017 and 2016

MODESTO IRRIGATION DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Modesto Irrigation District
Modesto, California

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, 2017 and 2016, 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, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Note 2, the District has adopted the provisions of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective January 1, 2017. 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 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 financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 31, 2018

MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - 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 2017 and 2016 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.

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:

The financial statements for the District include a Balance Sheet; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows, Statement of Fiduciary Net Position; Statement of Changes in Fiduciary Net Position; and Notes to the Financial Statements.

Balance Sheet:

The Balance Sheet provides information about assets, deferred outflows of resources, liabilities, deferred inflows of resources 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.

Deferred outflows 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 time.

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.

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

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

Statement of Revenues, Expenses and Changes in Net Position:

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

MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

Statement of Cash Flows:

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

A cash flow statement reflects changes over time rather than absolute dollar amounts at a point in time. The bottom line of the cash flow statement shows the net increase or decrease in cash for the period. Cash flow statements are divided into three activities:

(1) operating activities; (2) investing activities; and (3) capital financing activities.

1. Operating Activities – analyzes the cash flow from operational activities (Operating Income and Expenses). This section of the cash flow statement reconciles the operating income to the actual cash MID received from or used in its operating activities. To facilitate this, the operating income is adjusted for any non-cash items (depreciation expenses) and any cash that was used or provided by other operating assets and liabilities.
2. Investing Activities – reflects the cash flow from all investing activities including purchases or sales of investment securities.
3. Capital Financing Activities – shows the cash flow from all financing activities. Typical sources of cash flow include funds received from borrowings, paying back debt service, and the purchase of capital assets.

Statement of Fiduciary Net Position:

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

Statement of Changes in Fiduciary Net Position:

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

MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

The following is a comparative financial summary for years ending December 31, 2017, 2016, and 2015.

Financial Summary

Balance Sheet

(\$ in thousands)

	December 31, 2017	December 31, 2016	December 31, 2015	Change from 2016 to 2017
Assets and Deferred Outflows of Resources				
Utility plant, net	\$ 717,673	\$ 717,198	\$ 716,917	\$ 475
Other noncurrent assets and investments	292,359	314,726	295,993	(22,367)
Current assets	135,660	160,087	191,671	(24,427)
Deferred outflows of resources	63,367	68,144	54,298	(4,777)
Total Assets and Deferred Outflows of Resources	\$ 1,209,059	\$ 1,260,155	\$ 1,258,879	\$ (51,096)
Liabilities, Deferred Inflows of Resources, and Net Position				
Long-term debt, net	\$ 616,180	\$ 705,695	\$ 760,885	\$ (89,515)
Noncurrent liabilities	204,469	185,515	171,794	18,954
Current liabilities	82,338	81,378	74,329	960
Deferred inflow of resources	43,101	42,865	43,623	236
Net position				
Net investment in capital assets	110,441	62,377	22,611	48,064
Unrestricted	152,530	182,325	185,637	(29,795)
Total Liabilities, Deferred Inflows, and Net Position	\$ 1,209,059	\$ 1,260,155	\$ 1,258,879	\$ (51,096)
Statement of Revenues, Expenses, and Changes in Net Position				
(\$ in thousands)				
	December 31, 2017	December 31, 2016	December 31, 2015	Change from 2016 to 2017
Operating revenues	\$ 384,392	\$ 413,790	\$ 424,999	\$ (29,398)
Operating expenses	(340,443)	(347,161)	(361,994)	6,718
Operating income (loss)	43,949	66,629	63,005	(22,680)
Non-operating Income (Expenses)				
Investment and other income, net	4,028	3,592	7,886	436
Interest expense	(36,737)	(39,598)	(39,545)	2,861
Other non-operating income, net	5,294	4,568	5,077	726
Non-operating income (expense)	(27,415)	(31,438)	(26,582)	4,023
Contributed Capital - Electric/Water	1,735	1,263	6,235	472
Change in net position	18,269	36,454	42,658	(18,185)
Net position, beginning of year	244,702	208,248	165,590	36,454
Net Position, End of Year	\$ 262,971	\$ 244,702	\$ 208,248	\$ 18,269

MODESTO IRRIGATION DISTRICT

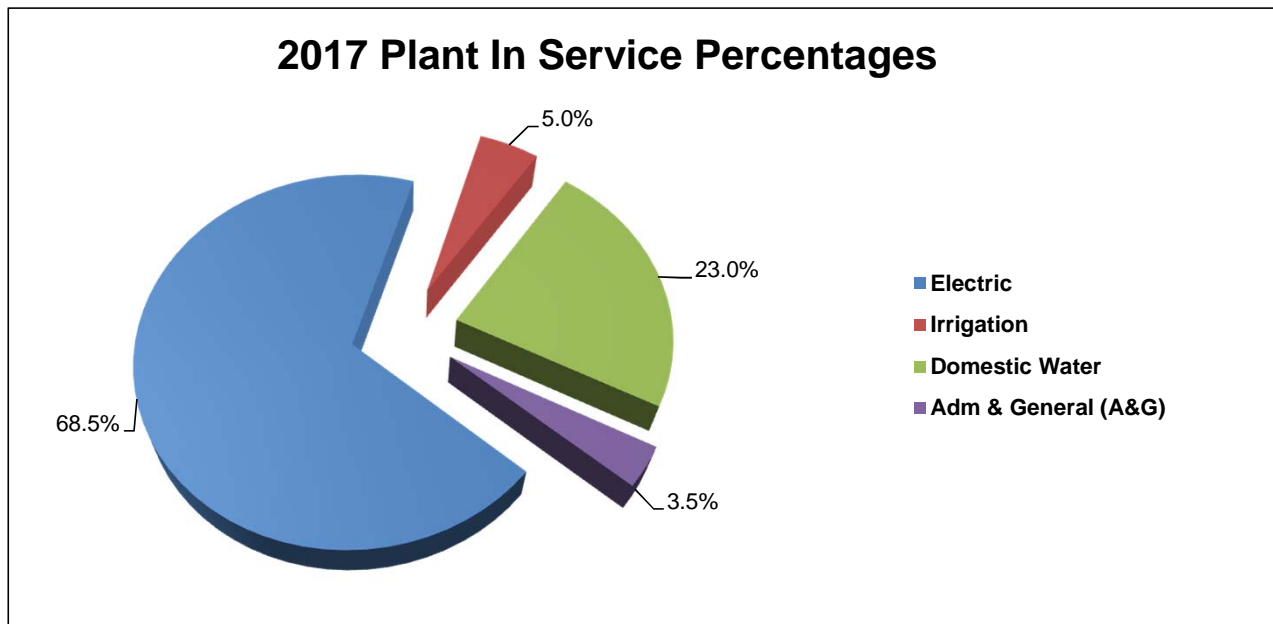
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

ASSETS and DEFERRED OUTFLOWS

Utility Plant, net

MID has invested approximately \$717.7 million in utility plant assets net of accumulative depreciation and transferred approximately \$51.7 million of assets from construction in progress to utility plant in service in 2017. This includes \$25.7 million for the integrated customer billing system that went into service in September of 2017. The following chart reflects the percentage breakdown of Utility Plant net of depreciation by category as of December 31, 2017.



Utility plant increased by approximately \$0.5 million in 2017 due to additions to in plant in service of \$39.8 million, which included \$25.7 million for the integrated customer billing system, offset by a decrease of \$11.0 million construction work in progress and an increase in depreciation of \$28.3 million.

Utility plant increased by approximately \$0.3 million in 2016 due to additions in plant and service offset by construction work in progress and depreciation.

Other non-current assets and investments

Other non-current assets and investments decreased \$22.4 million in 2017. The decrease is due to a decrease in Cash and investments - restricted of \$43.3 million due to requisition of bond proceeds to reimburse capital expenditures partially offset by an increase in Investments - unrestricted of \$20.8 million.

Other non-current assets and investments increased \$18.7 million in 2016. The increase is due to both an increase in Investments - unrestricted of \$26.0 million and an increase in Other long-term assets due to a \$3.0 million increase in the amount due to TANC. This increase is partially offset by a decrease in capital improvement funds of \$11.6 million.

MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

Current assets

Current assets decreased by approximately \$24.4 million in 2017. The decrease is based on a combination of changes in the District's portfolio between long-term investments and short-term Cash and cash equivalents - unrestricted. Current assets for Cash and cash equivalents - unrestricted decreased \$27.4 million over prior year.

Current assets decreased by approximately \$31.6 million in 2016. The decrease is based on a combination of changes in the District's portfolio between long-term investments and short-term investments. The "cash and cash equivalents" for both unrestricted and restricted had a net decrease of \$14.8 million. Additional significant changes include decreases in Materials and supplies of \$13.8 million and Other current assets of \$2.4 million.

Deferred Outflows of Resources

In 2017 deferred outflows of resources decreased by \$4.8 million. The change is due to a small decrease in deferred outflows related to pension of \$0.5 million, a decrease in Unamortized loss on advanced refunding of \$2.5 million due to scheduled amortization during the current year, and a decrease in Deferred cash flow hedges of approximately \$1.7 million.

In 2016 deferred outflows of resources increased by \$13.8 million. The change is due to deferred outflows related to pension increasing by \$14.0 million and Unamortized loss on advanced refunding increasing approximately \$3.5 million due to the debt refunding in the current year. This was offset by decreases in Deferred cash flow hedges of approximately \$3.7 million.

LIABILITIES AND NET POSITION

Long-term debt

Long-term debt decreased by \$89.5 million in 2017 due to scheduled debt service payments of \$36.1 million and a cash defeasance of \$51.4 million on the 2009A COP bonds.

Long-term debt decreased by \$55.2 million in 2016 due to scheduled debt service payments and the refunding of the 2004B, 2006A, and a portion of the 2009A COP bonds with the 2016 Refunding Revenue Bonds and cash on hand.

Non-current liabilities

Non-current liabilities increased by \$19.0 million in 2017. This increase is primarily due to an increase of \$25.8 million in Equity interest in MSR due to M-S-R PPA divesting its ownership interest in the San Juan Generating Station Unit 4 effective December 31, 2017, partially offset by scheduled amortization of unamortized premium of \$7.4 million.

Non-current liabilities increased by \$13.7 million in 2016 primarily due to an increase of \$17.1 million in Net pension liability and an increase in Unamortized premium of \$10.2 million, offset by changes in Unamortized debt discounts, Other liabilities, and Equity interest in M-S-R totaling \$13.6 million.

MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

Current liabilities

Current liabilities increased by \$1.0 million in 2017 due to a increase in Current portion of long-term debt of \$2.0 due to regularly scheduled debt service payments, an increase in Derivative financial instruments maturing within on-year of \$0.8 million, offset by a decrease in Interest payable of \$1.4 million.

Current liabilities increased by \$7.0 million in 2016 due to a increase in Current portion of long-term debt of \$9.8 million due to the current portion due on the new 2016 Refunding Revenue Bonds, offset by a decrease in Derivatives financial instrument maturing within one-year and Interest payable of \$2.9 million.

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 2017 the amount increased by \$0.2 million.

Net position

In 2017, the District's net investment in capital assets increased by \$48.1 million primarily due to investments in fixed assets, scheduled debt service payments of \$36.1 million and a partial cash defeasance of \$51.4 million related to the 2009A COPs.

Unrestricted net position decreased by approximately \$29.8 million in 2017 primarily due to the decrease in Equity in net income of public power agencies. This decrease was related to the District's interest in M-S-R PPA divesting its ownership interest in the San Juan Generating Station Unit 4 effective December 31, 2017.

In 2016, the District's net investment in capital assets increased by \$39.8 million primarily due to investments in fixed assets and scheduled debt payments from current year.

Unrestricted net position decreased by approximately \$3.3 million in 2016 primarily due to the decrease in operating revenue for the current year.

MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating Revenues

Changes from 2016 to 2017

In 2017 operating revenue decreased by \$29.4 million or approximately 7.1%.

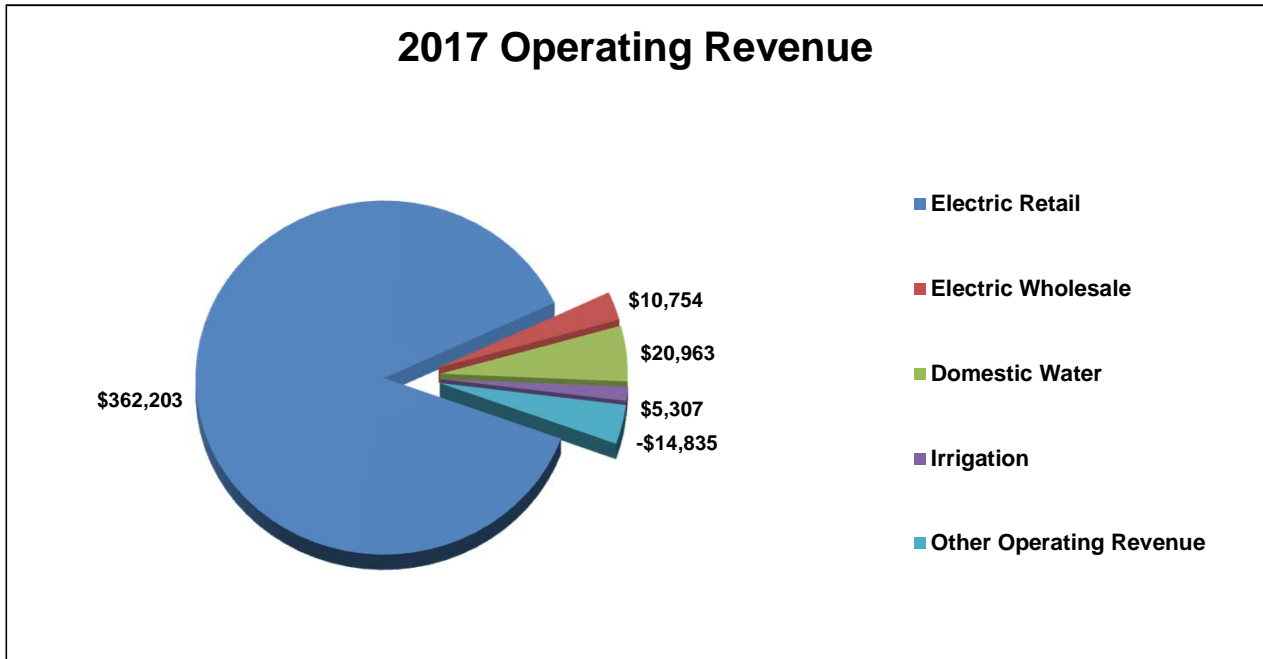
Retail electric revenue increased by \$6.0 million or approximately 1.7%. Retail consumption increased over the prior year due to increases in customer demand.

Wholesale electric revenue increased by \$3.7 million or approximately 51.4% due to an increase in TANC Oasis revenue of \$1.4 million and running generation at Ripon Generation Station for an outside agency.

In 2017, Domestic Water revenue remained relatively flat over the prior year with a small decrease of \$87 thousand.

Other operating revenue decreased by \$39.3 million or 160.7% primarily due to a decrease of \$35.3 million related to equity in public power agencies and late fees.

The following is the District's 2017 operating revenue (**dollars are in thousands**):



MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

Operating Revenues

Changes from 2015 to 2016

In 2016 operating revenue decreased by \$11.2 million or approximately 2.64%.

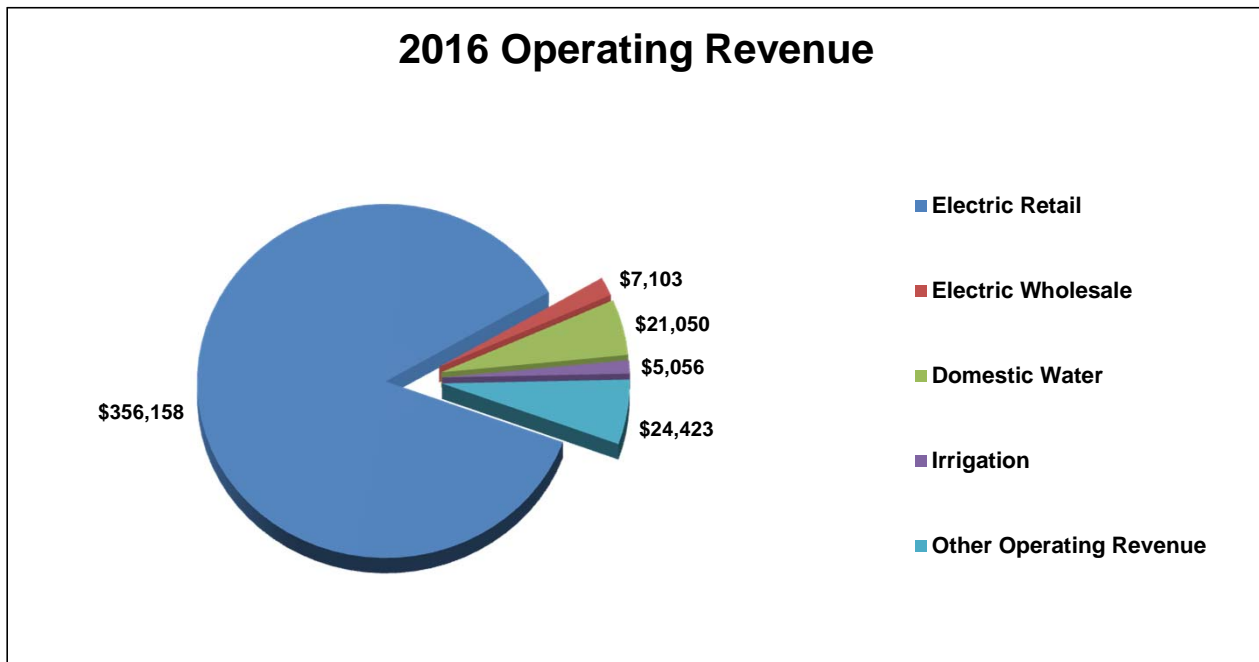
Retail electric revenue increased by \$4.3 million or approximately 1.23%. Retail consumption has remained relatively constant with changes in revenue due to small increases in customer demand.

Wholesale electric revenue decreased by \$8.9 million or approximately 55.66% due to reductions in generation sold during the year.

Domestic Water revenue increased of \$8.1 million or 62.54% due to increased costs associated with operating Phase 2 of the plant and an increase in depreciation expense.

Other operating revenue decreased by \$13.9 million or 36.3% due to equity in public power agencies, greenhouse gas revenue, and late fees.

The following is the District's 2016 operating revenue (**dollars are in thousands**):



MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

Operating Expenses

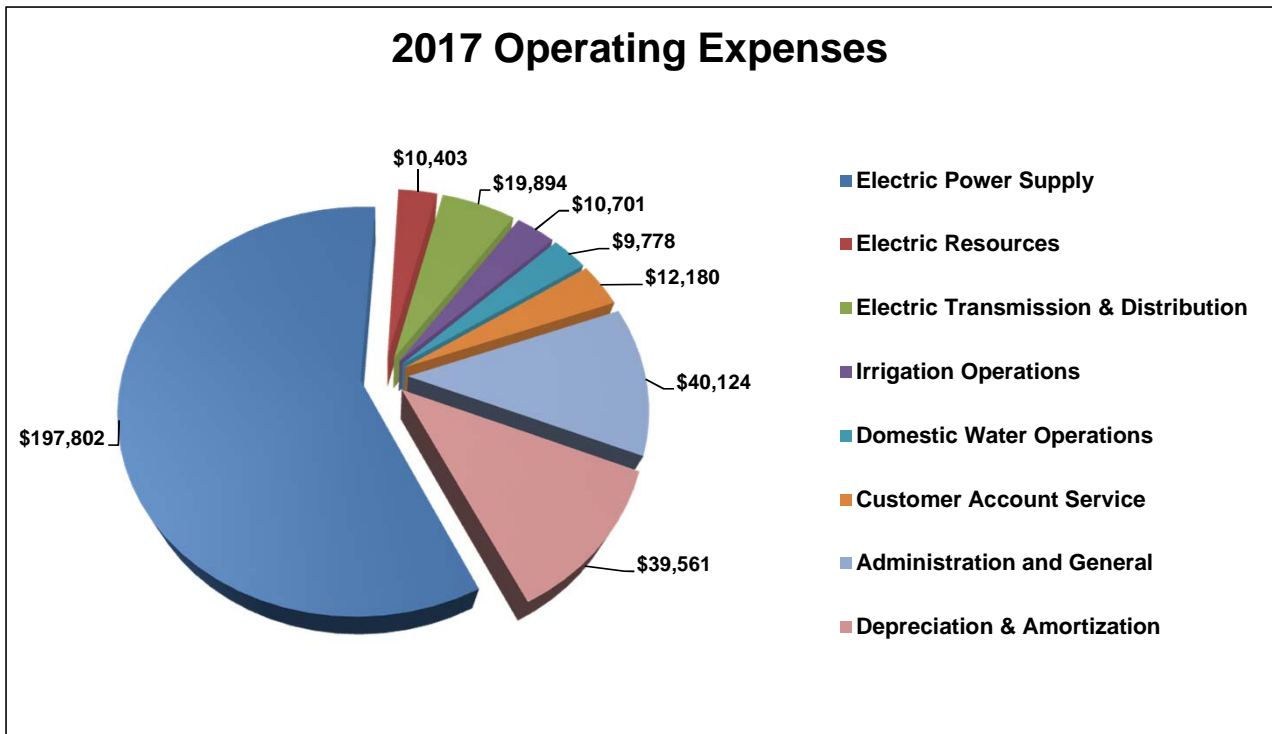
Changes from 2016 to 2017

Total operating expenses reflect a decrease of approximately \$6.7 million in 2017. The decrease is primarily due to decreased costs for Purchased power, offset by small increases in Electric transmission and distribution, Administration and general, and Depreciation.

Purchased power and power generation expenses for 2017 reflect a decrease of approximately \$11.3 million or 5.4%. The change is mainly due to a decrease in Purchased power costs and lower natural gas prices.

Expenses for Domestic Water remained relatively flat when compared to 2016. Irrigation operations reflects a small increase of \$0.1 million or 0.5%.

The following depicts the 2017 operational expenses (dollars are in thousands):



MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

Operating Expenses

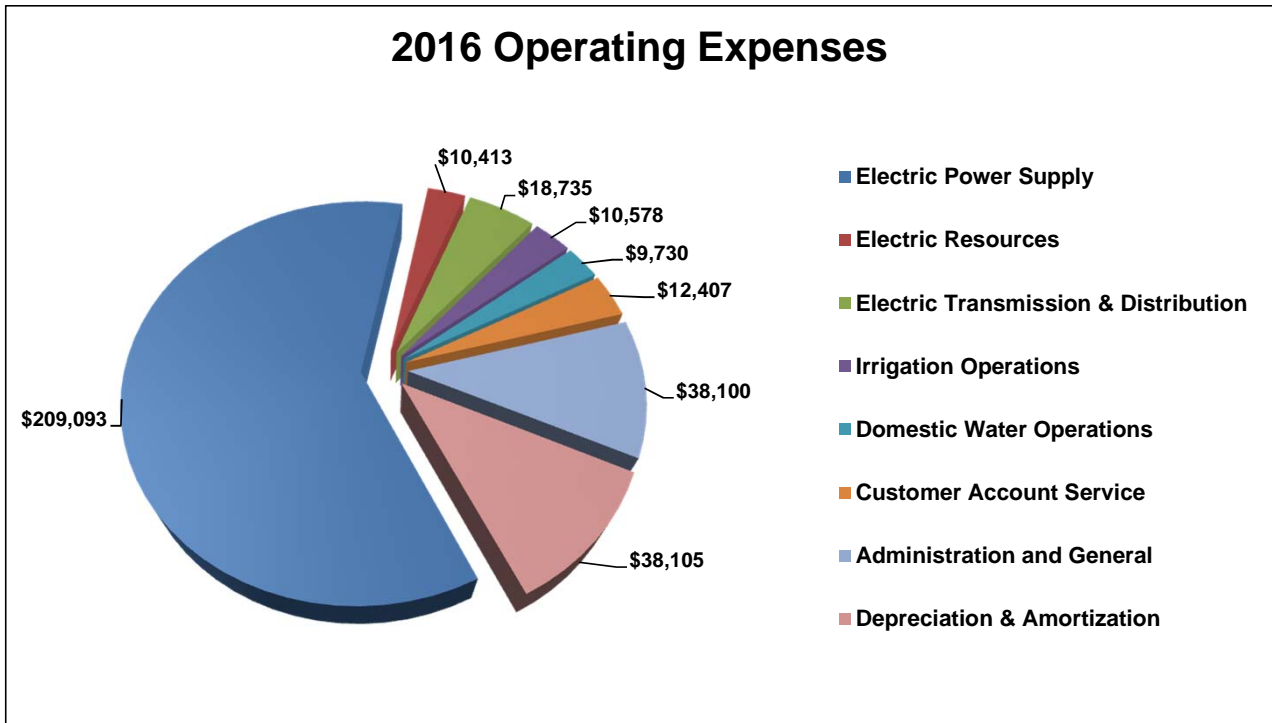
Changes from 2015 to 2016

Total operating expenses reflect a decrease of approximately \$14.8 million in 2016. The decrease is primarily due to decreased costs for Purchased power, offset by changes in Electric transmission and distribution, Domestic water operations, administration and general, and depreciation.

Purchased power and power generation expenses for 2016 reflect a decrease of approximately \$20.5 million or 8.92%. The change is mainly due to a decrease in Purchased power costs.

Expenses for Domestic Water reflect an increase of 17.3% related to increased costs for operations and maintenance due to the expansion of the plant. Irrigation operations reflects a decrease of \$0.5 million or 4.8%.

The following depicts the 2016 operational expenses (dollars are in thousands):



MODESTO IRRIGATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2017 and 2016 - Unaudited

Non-Operating Revenue (Expenses)

Investment income

Investment income increased in 2017 by \$2.0 million due to an increase in interest received on investments and lower unrealized losses on investments held.

Investment income decreased in 2016 by \$0.8 million due to reduction in interest on investments and unrealized losses on investments held.

Interest expense

Interest expense for 2017 decreased \$2.9 million over prior year due to scheduled interest payments.

Interest expense for 2016 remained relatively constant over the prior year.

Other non-operating Income, net

Other non-operating income increased in 2017 by \$0.7 million over the prior year. This was partially due to funds received from FEMA for storm damage which was reimbursed in 2017.

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, 2017 and 2016

	<i>(Dollars in Thousands)</i>	
	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS		
CAPITAL ASSETS		
Plant in service	\$ 1,334,226	\$ 1,294,442
Less accumulated depreciation	<u>(646,895)</u>	<u>(618,587)</u>
Plant in service - net	687,331	675,855
Construction work in progress	<u>30,342</u>	<u>41,343</u>
Total Capital Assets	<u>717,673</u>	<u>717,198</u>
OTHER ASSETS AND INVESTMENTS		
Cash and investments - restricted	69,212	112,561
Investments - unrestricted	124,844	103,995
Interest receivable - restricted	339	343
Capital improvement fund	7,213	9,799
Regulatory costs for future recovery	65,534	66,409
Equity interest in TANC	3,136	3,350
Other long-term assets	<u>22,081</u>	<u>18,269</u>
Total Other Assets and Investments	<u>292,359</u>	<u>314,726</u>
CURRENT ASSETS		
Cash and investments - unrestricted	63,690	91,100
Cash and investments - restricted	8,066	8,581
Interest receivable - unrestricted	1,146	952
Customer accounts receivable, net	35,875	34,765
Materials and supplies	16,261	15,919
Prepayments	2,169	1,599
Other current assets, net	<u>8,453</u>	<u>7,171</u>
Total Current Assets	<u>135,660</u>	<u>160,087</u>
Total Assets	<u>1,145,692</u>	<u>1,192,011</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred cash flow hedges - unrealized loss on derivatives	24,981	26,727
Unamortized loss on refunding	11,374	13,883
Deferred outflows related to pension	<u>27,012</u>	<u>27,534</u>
Total Deferred Outflows of Resources	<u>63,367</u>	<u>68,144</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 1,209,059</u>	<u>\$ 1,260,155</u>

LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<i>(Dollars in Thousands)</i>	
	<u>2017</u>	<u>2016</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	\$ 616,180	\$ 705,695
Unamortized premium	33,708	41,109
Unamortized debt discount	(1,566)	(2,577)
Net pension liability	95,974	93,447
Other liabilities	11,387	11,839
Derivative financial instruments	23,933	26,480
Equity interest in M-S-R	41,033	15,217
Total Noncurrent Liabilities	<u>820,649</u>	<u>891,210</u>
CURRENT LIABILITIES		
Accounts payable and other accruals	31,995	32,481
Current liabilities payable from restricted assets		
Current portion of long-term debt	38,155	36,150
Interest payable	11,140	12,500
Derivative financial instruments maturing within one year	1,048	247
Total Current Liabilities	<u>82,338</u>	<u>81,378</u>
Total Liabilities	<u>902,987</u>	<u>972,588</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	<u>43,101</u>	<u>42,865</u>
NET POSITION		
Net investment in capital assets	110,441	62,377
Unrestricted	<u>152,530</u>	<u>182,325</u>
Total Net Position	<u>262,971</u>	<u>244,702</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 1,209,059</u>	<u>\$ 1,260,155</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, 2017 and 2016

	<i>(Dollars in Thousands)</i>	
	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Residential, commercial and industrial electric	\$ 362,203	\$ 356,158
Wholesale electric	10,754	7,103
Domestic water	20,963	21,050
Irrigation water	5,307	5,056
Equity in net income of public power agencies	(22,724)	12,614
Other operating income, net	<u>7,889</u>	<u>11,809</u>
Total Operating Revenues	<u>384,392</u>	<u>413,790</u>
OPERATING EXPENSES		
Purchased power	158,287	174,009
Power generation	39,515	35,084
Electric resources	10,403	10,413
Electric transmission and distribution	19,894	18,735
Irrigation operations	10,701	10,578
Domestic water operations	9,778	9,730
Customer account service	12,180	12,407
Administrative and general	40,124	38,100
Depreciation and amortization	<u>39,561</u>	<u>38,105</u>
Total Operating Expenses	<u>340,443</u>	<u>347,161</u>
OPERATING INCOME	<u>43,949</u>	<u>66,629</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	3,516	1,511
Interest expense	(36,737)	(39,598)
Capitalized interest	497	859
Amortization of debt discount	(124)	(125)
Amortization of premium	7,401	5,799
Amortization of loss on refunding	(6,692)	(3,853)
Regulatory amounts collected in rates	(570)	(599)
Other nonoperating income, net	<u>5,294</u>	<u>4,568</u>
Total Nonoperating Expenses	<u>(27,415)</u>	<u>(31,438)</u>
Change in Net Position Before Contributions	16,534	35,191
CAPITAL CONTRIBUTIONS	<u>1,735</u>	<u>1,263</u>
CHANGE IN NET POSITION	18,269	36,454
NET POSITION - Beginning of Year	<u>244,702</u>	<u>208,248</u>
NET POSITION - END OF YEAR	<u>\$ 262,971</u>	<u>\$ 244,702</u>

See accompanying notes to financial statements.

MODESTO IRRIGATION DISTRICT

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2017 and 2016

	<i>(Dollars in Thousands)</i>	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 408,436	\$ 403,030
Receipts from public power agencies	3,306	4,237
Payments to suppliers for goods and services	(259,232)	(250,800)
Payments to employees for services	(45,461)	(43,077)
Net Cash Flows Provided by Operating Activities	<u>107,049</u>	<u>113,390</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments to escrow for refunding	(54,351)	(8,831)
Repayment of long-term debt	(36,150)	(26,320)
Debt issuance costs	-	(685)
Construction expenditures	(36,193)	(36,495)
Interest paid	(38,097)	(41,373)
Payment to U.S. Treasury for arbitrage on outstanding debt	-	(2,333)
Contributions received for construction	1,399	1,546
Net Cash Flows Used in Capital Financing Activities	<u>(163,392)</u>	<u>(114,491)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(67,505)	(106,565)
Investments sold and matured	58,803	71,543
Interest received	4,250	3,373
Net Cash Flows Used in Investing Activities	<u>(4,452)</u>	<u>(31,649)</u>
Net Change in Cash and Cash Equivalents	(60,795)	(32,750)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>123,150</u>	<u>155,900</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 62,355</u>	<u>\$ 123,150</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES		
Noncash contributions by developers	<u>\$ 336</u>	<u>\$ 450</u>
Capitalized interest	<u>\$ 497</u>	<u>\$ 859</u>
Amortization	<u>\$ 15</u>	<u>\$ 1,222</u>
Change in arbitrage liability	<u>\$ (6)</u>	<u>\$ (550)</u>
Bond proceeds used in refunding debt	<u>\$ -</u>	<u>\$ (112,395)</u>
Unrealized gain (loss) on investments	<u>\$ (918)</u>	<u>\$ (1,618)</u>

	<i>(Dollars in Thousands)</i>	
	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 43,949	\$ 66,629
Adjustments to reconcile operating income to net cash flows provided by operating activities		
Other non-operating income	5,294	4,568
Depreciation and amortization	39,561	38,105
Undistributed income from public power agencies	22,724	(12,614)
Distributions from public power agencies	3,306	4,237
Change in operating assets, liabilities, and deferred inflows		
Customer accounts receivable, net	(1,110)	(940)
Wholesale power receivables	-	(5)
Other current assets, net	(5,094)	(3,326)
Materials and supplies	(342)	13,832
Prepayments	(570)	1,633
Accounts payable and other accruals	(3,954)	(466)
Pension related deferrals and liabilities	3,049	3,089
Unearned revenue and other liabilities	236	(1,352)
	<u>107,049</u>	<u>113,390</u>
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	\$ 107,049	\$ 113,390
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS		
Cash and investments - unrestricted	\$ 63,690	\$ 91,100
Cash and investments - restricted	8,066	8,581
Investments - unrestricted	124,844	103,995
Cash and investments - restricted	69,212	112,561
Capital improvement fund	7,213	9,799
Total Cash and Investments	<u>273,025</u>	<u>326,036</u>
Less: Noncash equivalents	<u>(210,670)</u>	<u>(202,886)</u>
CASH AND CASH EQUIVALENTS	\$ 62,355	\$ 123,150

See accompanying notes to financial statements.

MODESTO IRRIGATION DISTRICT

STATEMENTS OF FIDUCIARY NET POSITION As of December 31, 2017 and 2016

	<i>(Dollars in Thousands)</i>	
	<u>2017</u>	<u>2016</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 11,745	\$ 13,067
RECEIVABLES		
Accrued interest	309	256
Other receivable	593	-
Dividends	33	29
INVESTMENTS AT FAIR VALUE		
Fixed income securities	35,371	28,512
Publicly traded stocks	38,900	32,689
US agency securities	4,233	4,432
Stable value	15,040	14,646
Mutual funds	338,582	278,357
Hedge funds	1,271	15,649
Total Assets	<u>446,077</u>	<u>387,637</u>
LESS: ACCRUED LIABILITIES	<u>914</u>	<u>827</u>
NET POSITION HELD IN TRUST FOR RETIREE BENEFITS	<u>\$ 445,163</u>	<u>\$ 386,810</u>

See accompanying notes to financial statements.

MODESTO IRRIGATION DISTRICT

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION As of December 31, 2017 and 2016

	<i>(Dollars in Thousands)</i>	
	<u>2017</u>	<u>2016</u>
ADDITIONS		
Additions to net position attributed to:		
Investment income:		
Net appreciation (depreciation) of investments	\$ 51,111	\$ 19,517
Dividend income	7,950	5,154
Interest income	1,375	1,969
Investment expenses	<u>(1,051)</u>	<u>(1,106)</u>
Net investment income	59,385	25,534
Contributions		
Employee contributions	2,707	2,854
Employer contributions	23,109	21,766
Other contributions	-	51
Total Contributions	<u>25,816</u>	<u>24,671</u>
 Total Additions	 <u>85,201</u>	 <u>50,205</u>
DEDUCTIONS		
Deductions from net position attributed to:		
Distributions to plan members and beneficiaries	20,627	21,103
Medical premiums paid	5,935	5,440
Administrative expenses	251	188
Consultant and professional services expenses	<u>35</u>	<u>35</u>
Total Deductions	<u>26,848</u>	<u>26,766</u>
 Net Increase (Decrease) in Net Position Held in Trust for Retiree Benefits	 58,353	 23,439
NET POSITION HELD IN TRUST FOR RETIREE BENEFITS		
Beginning of year	<u>386,810</u>	<u>363,371</u>
 END OF YEAR	 <u>\$ 445,163</u>	 <u>\$ 386,810</u>

See accompanying notes to financial statements.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(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 component units presented as fiduciary funds (collectively referred to as “the Plan”):

Retirement System Basic Retirement Plan (a pension trust fund) is a single-employer 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, 2017 and 2016
(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).

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes requirements for financial reporting and disclosures for governments that have defined benefit and defined contribution other postemployment benefit plans administered through a trust. The District adopted this statement effective January 1, 2017.

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. This statement establishes requirements for financial reporting and disclosures related to in-substance defeasance of debt using only existing resources. The District adopted this statement effective January 1, 2017.

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 fair value. The District's deposits with LAIF are generally available for withdrawal on demand.

INVESTMENTS

Generally, all investments are carried at their fair value, except for guaranteed investment contracts (GICs), which are carried at cost. Fair values are based on methods and inputs as outlined in Note 3. Fair values may have changed significantly after year-end.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The District recognizes an estimate of uncollectible accounts for its customer accounts receivable related to electric service based upon its historical experience with collections. The District has an allowance for doubtful accounts for its electric retail customers of \$622 and \$428 as of December 31, 2017 and 2016, 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 \$265 and \$658 at December 31, 2017 and 2016, respectively.

MATERIALS AND SUPPLIES

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

The balance includes greenhouse gas allowances used for generation. Allowances are valued at the lower of cost or fair value 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. No allowances were held for sale at December 31, 2017 and 2016.

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, 2017 and 2016
(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 original unfunded net pension liability under GASB Statement No. 68.

OTHER CURRENT AND LONG-TERM ASSETS

The balance represents miscellaneous receivables and deposits. \$1,852 and \$2,128 of the 2017 and 2016 balances, respectively, are receivables from the City of Modesto for a domestic water pipeline project. Approximately \$1,569 and \$1,854 of the 2017 and 2016 balances, respectively, are not expected to be collected within one year. The balance of other long-term assets also includes the net OPEB asset, discussed in Note 9, and a receivable from TANC, discussed in Note 6.

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, 2017 and 2016
(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, 2017 and 2016, the District recorded accrued vacation time of \$3,330 and \$3,210, respectively. The liability is included in accounts payable and other accruals in the accompanying balance sheet.

OTHER LIABILITIES

Other liabilities include customer meter deposits of \$9,510 and \$9,798 at December 31, 2017 and 2016, respectively. Other costs in the account include 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, 2017 and 2016 for these assets.

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. See Note 9 for additional information.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(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 of resources 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 Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, 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, 2017 and 2016
(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, 2017 and 2016, unbilled revenues of \$15,032 and \$20,771, 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.

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, 2017 and 2016
(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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, and Statement No. 85, *Omnibus 2017*, Statement No. 87, *Leases*, and Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. 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 2017 and 2016.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(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.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset (liability). Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements include the following:

- > Institutional bond quotes for US government agency securities, corporate medium term notes, and US Treasuries.
- > Trader-entered price information for money market mutual funds.
- > JJ Kenny municipal information for municipal bonds.
- > Matrix pricing for commercial paper.
- > Bloomberg pricing of similar assets for its interest rate swap.
- > Market information from NYMEX for its natural gas swaps and futures.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

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

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of December 31, 2017 and 2016:

Investment Type	December 31, 2017			Total
	Level 1	Level 2	Level 3	
US Government Agencies	\$ -	\$ 94,728	\$ -	\$ 94,728
US Treasury Notes	58,819	-	-	58,819
Money Market Funds	11,780	-	-	11,780
Corporate Medium Term Notes	-	30,226	-	30,226
Municipal Bonds	-	4,014	-	4,014
Commercial Paper	-	2,992	-	2,992
Derivative Financial Instruments	(1,027)	(23,954)	-	(24,981)
Total	\$ 69,572	\$ 108,006	\$ -	\$ 177,578

Investment Type	December 31, 2016			Total
	Level 1	Level 2	Level 3	
US Government Agencies	\$ -	\$ 115,652	\$ -	\$ 115,652
US Treasury Notes	31,261	-	-	31,261
Money Market Funds	47,078	-	-	47,078
Corporate Medium Term Notes	-	32,026	-	32,026
Municipal Bonds	-	4,056	-	4,056
Derivative Financial Instruments	(890)	(25,837)	-	(26,727)
Total	\$ 77,449	\$ 125,897	\$ -	\$ 203,346

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, 2017 and 2016, 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, 2017 and 2016
(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, 2017 and 2016, 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	2017	2016
US Agencies Implicitly Guaranteed	\$ 94,728	\$ 115,652
Corporate Medium Term Notes	30,226	32,026
Municipal Bonds	4,014	4,056
Commercial Paper	2,992	-
US Treasury	58,819	31,261
Totals	\$ 190,779	\$ 182,995

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, 2017 and 2016, the District's investments were rated as follows:

Investment Type	Standard & Poors	
	2017	2016
LAIF	NR	NR
Money Market Mutual Funds	NR	NR
US Agencies Implicitly Guaranteed	AA+	AA+
Corporate Medium Term Notes	AA - - A+	AA- - A+
Investment Agreement Contracts	NR	NR
Municipal Bonds	AA-	AA-

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
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

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, 2017 and 2016, the District's investment portfolio was concentrated as follows:

Investment Type	Percentage of Portfolio	
	2017	2016
Federal Home Loan Bank Bonds	4%	7%
Fannie Mae	19%	16%
Freddie Mac	14%	12%

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, 2017, 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
US Agencies	\$ 94,728	\$ -	\$ 94,728	\$ -
Corporate Medium Term Notes	30,226	9,845	20,381	-
LAIF	21,120	21,120	-	-
Money Market Fund	11,780	11,780	-	-
Municipal Bonds	4,014	-	4,014	-
Commercial Paper	2,992	2,992	-	-
US Treasury	58,819	-	58,819	-
Totals	<u>\$ 223,679</u>	<u>\$ 45,737</u>	<u>\$ 177,942</u>	<u>\$ -</u>

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(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, 2016, 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
US Agencies	\$ 115,652	\$ 7,991	\$ 107,661	\$ -
Corporate Medium Term Notes	32,026	6,992	25,034	-
LAIF	61,209	61,209	-	-
Money Market Fund	47,078	47,078	-	-
Municipal Bonds	4,056	-	4,056	-
US Treasury	31,261	-	31,261	-
Totals	<u>\$ 291,282</u>	<u>\$ 123,270</u>	<u>\$ 168,012</u>	<u>\$ -</u>

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

The following disclosures relate to the District's Fiduciary Funds. Disclosures related to the Retiree Medical Plan are shown separate from the Basic and Supplemental Retirement Plans for greater transparency since its disclosures are not included in a separate report.

The Plans categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observables and minimize the use of unobservable inputs.

The valuation methods for recurring fair value measurements include the following:

- > Fixed income securities, publicly traded stocks, US agency securities, US treasuries, and foreign government obligations are valued at the most recent closing price reported on the market on which individual securities are traded.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

- > Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The level 2 and level 3 mutual funds are valued based on a manual method using pricing provided by various sources such as the issuer, investment manager, fund accountant, etc. or default price if a price is not provided.
- > The hedge funds are collective funds that seek to maintain a stable net asset value.
- > Stable value fund is a collective fund that seeks to maintain a stable net asset value. It invests primarily in a diversified portfolio of fixed income securities from US and foreign issuers, including corporate, mortgage-backed, and government, and agency bonds.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Basic and Supplemental Retirements Plan's assets at fair value as of December 31, 2017 and 2016:

Investment Type	December 31, 2017			Total
	Level 1	Level 2	Level 3	
Money Market Funds	\$ 2,523	\$ -	\$ -	\$ 2,523
US Agency Securities	-	4,233	-	4,233
Foreign Government Obligation	-	610	-	610
Other Fixed Income Securities	-	27,227	279	27,506
US Treasuries	7,255	-	-	7,255
Publicly Traded Stocks	32,417	6,483	-	38,900
Mutual Funds	204,970	59,235	22,405	286,610
Total	\$ 247,165	\$ 97,788	\$ 22,684	\$ 367,637
Investments measured at the net asset value				
Stable value				\$ 15,040
Hedge funds				1,272
Total Investments Measured at Fair Value				\$ 383,949

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 2,721	\$ -	\$ -	\$ 2,721
US Agency Securities	-	4,432	-	4,432
Foreign Government Obligation	-	1,410	-	1,410
Other Fixed Income Securities	-	24,931	-	24,931
US Treasuries	2,171	-	-	2,171
Publicly Traded Stocks	28,098	4,591	-	32,689
Mutual Funds	165,463	51,318	18,355	235,136
Total	\$ 198,453	\$ 86,682	\$ 18,355	\$ 303,490
Investments measured at the net asset value				
Stable value				\$ 14,646
Hedge funds				15,649
Total Investments Measured at Fair Value				\$ 333,785

Investments Measured Using NAV per Share Practical Expedient: These funds have no unfunded commitments, the redemption frequency is Daily – Bi-annually, and the redemption notice period ranges from 0 – 92 days.

The following table sets forth by level, within the fair value hierarchy, the Retiree Medical Benefit Plan's assets at fair value as of December 31, 2017 and 2016.

Investment Type	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 42,259	\$ 5,594	\$ 4,120	\$ 51,973
Money Market Funds	274	-	-	274
Total	\$ 42,533	\$ 5,594	\$ 4,120	\$ 52,247

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 35,233	\$ 4,775	\$ 3,214	\$ 43,222
Money Market Funds	72	-	-	72
Total	\$ 35,305	\$ 4,775	\$ 3,214	\$ 43,294

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

Custodial Credit Risk

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, 2017 and 2016, the Basic and Supplemental Retirement Plan'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	2017	2016
US Agency Securities	\$ 4,233	\$ 4,432
Foreign Government Obligation	610	1,410
US Treasuries	7,255	2,171
Corporate Bonds	17,575	16,113
Other Fixed Income Securities	9,931	8,818
Publicly Traded Stocks	38,900	32,689
 Totals	 \$ 78,504	 \$ 65,633

The Retiree Medical Benefit Plan investments were not exposed to custodial credit risk in 2017 and 2016.

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

Credit Risk

As of December 31, 2017 and 2016, the Basic and Supplemental Retirement Plan's investments were rated as follows:

Investment Type	Standard & Poors	
	2017	2016
Corporate Bonds	A – BBB+, NR	A – BBB+
Other Fixed Income Securities	A – BBB+, NR	A – BBB+, NR
Money Market Funds	NR	NR
Hedge Funds	NR	NR
US Agency Securities	AA+	AA+
Foreign Government Obligations	AA+	A+, AA+

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

Credit Risk

In addition, the Basic and Supplemental Retirement Plans had investments in mutual funds – bond funds were rated as follows:

MorningStar Rating	2017	2016
2	\$ 1,200	\$ 976
3	37,228	30,450
4	78,697	55,359
5	19,659	17,413
Not Rated	65	-

As of December 31, 2017 and 2016, the Retiree Medical Benefits Plan's investments in mutual fund – bond funds were rated as follows:

MorningStar Rating	2017	2016
3	\$ 15,916	\$ 14,198
4	1,161	-

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. Noninvestment 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, 2017 and 2016.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

Interest Rate Risk

As of December 31, 2017, the Basic and Supplemental Retirement 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
Money Market Funds	\$ 2,523	\$ 2,523	\$ -	\$ -
LAIF	8,713	8,713	-	-
US Agency Securities	4,233	-	-	4,233
Foreign Government Obligations	610	-	127	483
US Treasuries	7,255	-	4,014	3,241
Other Fixed Income Securities	27,506	431	6,358	20,717
Stable Value Fund	15,040	15,040	-	-
Mutual Funds	136,850	136,850	-	-
Totals	\$ 202,730	\$ 163,557	\$ 10,499	\$ 28,674

As of December 31, 2016, the Basic and Supplemental Retirement 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
Money Market Funds	\$ 2,721	\$ 2,721	\$ -	\$ -
LAIF	10,043	10,043	-	-
US Agency Securities	4,432	-	-	4,432
Foreign Government Obligations	1,411	-	124	1,287
US Treasuries	2,128	-	1,581	547
Other Fixed Income Securities	24,977	759	7,551	16,667
Stable Value Fund	14,646	14,646	-	-
Mutual Funds	110,560	110,560	-	-
Totals	\$ 170,918	\$ 138,729	\$ 9,256	\$ 22,933

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

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

Interest Rate Risk (cont.)

As of December 31, 2017, the Retiree Medical Benefit 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
Mutual Funds	\$ 17,077	\$ 17,077	\$ -	\$ -

As of December 31, 2016, the Retiree Medical Benefit 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
Mutual Funds	\$ 14,198	\$ 14,198	\$ -	\$ -

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 Basic and Supplemental Plan's exposure to foreign currency risk in U.S. dollars as of December 31, 2017 and 2016 is summarized in the following table.

Foreign Currency	2017	2016
Australian Dollar	\$ -	\$ 626
Canadian Dollar	-	281
German (Euro)	60	57
New Zealand	712	584
Total	\$ 772	\$ 1,548

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
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(Dollars in Thousands)

NOTE 3 – CASH AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS (cont.)

Foreign Currency Risk (cont.)

In addition, the Basic and Supplemental Retirement Plan investments in international equity open-ended mutual funds stated at fair value as of December 31, 2017 and 2016 were:

Mutual Fund Name	2017	2016
Oppenheimer International Growth Fund	\$ 26,016	\$ 18,642
PIMCO Real Return Fund Class	6,293	-
Prudential Core Bond Fund	28,983	23,715
Ivy International Core Equity Fund	146	136
Brandes International Equity Fund	24,764	20,427
Totals	\$ 86,202	\$ 62,920

The Retiree Medical Plan investments in international equity open-ended mutual funds stated at fair value as of December 31, 2017 and 2016 were:

Mutual Fund Name	2017	2016
Oppenheimer International Growth Fund	\$ 4,334	\$ 2,951
PIMCO Real Return Fund Class	1,161	-
Prudential Core Bond Fund	15,916	14,198
Brandes International Equity Fund	4,120	3,214
Totals	\$ 25,531	\$ 20,363

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

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(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	
	2017	2016
Restricted Accounts		
Project fund	\$ 28,333	\$ 70,988
Reserve fund	39,538	40,686
Redemption fund	8,508	8,581
Domestic water and reserve contingency fund	899	887
Total Restricted Accounts	<u>\$ 77,278</u>	<u>\$ 121,142</u>

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 2017 or 2016.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated/amortized				
Land and land rights	\$ 35,002	\$ -	\$ -	\$ 35,002
Intangibles assets, not being depreciated/amortized	5,367	-	-	5,367
Total Capital Assets Not Being Depreciated/Amortized	40,369	-	-	40,369
Capital assets being depreciated/amortized				
Intangible assets, being depreciated/ amortized	45,267	-	-	45,267
Electric system	866,324	47,837	11,059	903,102
Domestic water plant	216,860	28	924	215,964
Irrigation system	51,981	1,291	-	53,272
General and administrative facilities	73,641	2,611	-	76,252
Total Capital Assets Being Depreciated/Amortized	1,254,073	51,767	11,983	1,293,857
Total Capital Assets	1,294,442	51,767	11,983	1,334,226
Less: Accumulated depreciation/amortization	(618,587)	(39,561)	(11,253)	(646,895)
Construction in progress	41,343	40,691	51,692	30,342
Net Capital Assets	\$ 717,198	\$ 52,897	\$ 52,422	\$ 717,673

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets, not being depreciated/amortized				
Land and land rights	\$ 35,013	\$ -	\$ 11	\$ 35,002
Intangibles assets, not being depreciated/amortized	5,262	105	-	5,367
Total Capital Assets Not Being Depreciated/Amortized	<u>40,275</u>	<u>105</u>	<u>11</u>	<u>40,369</u>
Capital assets being depreciated/amortized				
Intangible assets, being depreciated/ amortized	45,231	36	-	45,267
Electric system	849,999	16,789	464	866,324
Domestic water plant	215,777	1,083	-	216,860
Irrigation system	51,125	856	-	51,981
General and administrative facilities	<u>72,558</u>	<u>2,868</u>	<u>1,785</u>	<u>73,641</u>
Total Capital Assets Being Depreciated/Amortized	<u>1,234,690</u>	<u>21,632</u>	<u>2,249</u>	<u>1,254,073</u>
Total Capital Assets	<u>1,274,965</u>	<u>21,737</u>	<u>2,260</u>	<u>1,294,442</u>
Less: Accumulated depreciation/amortization	<u>(582,648)</u>	<u>(38,105)</u>	<u>(2,166)</u>	<u>(618,587)</u>
Construction in progress	<u>24,600</u>	<u>38,020</u>	<u>21,277</u>	<u>41,343</u>
Net Capital Assets	<u>\$ 716,917</u>	<u>\$ 21,652</u>	<u>\$ 21,371</u>	<u>\$ 717,198</u>

NOTE 6 – INVESTMENT IN PUBLIC POWER AGENCIES

The District's investments in public power agencies are accounted for using the equity method of accounting and consist of the following at December 31, 2017 and 2016:

	2017	2016
M-S-R Public Power Agency	<u>\$ (41,033)</u>	<u>\$ (15,217)</u>
Transmission Agency of Northern California (TANC)	<u>\$ 3,136</u>	<u>\$ 3,350</u>

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

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

M-S-R PUBLIC POWER AGENCY

The District, the City of Santa Clara, and the City of Redding formed M-S-R Public Power Agency (Agency) for the principal purpose of acquiring electric power resources for the electric systems of its members. The District owns a 50% interest in generation assets owned by 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 consisted 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 divested its interest in the San Juan Plant as of December 31, 2017. The Agency recognized a loss of \$66,712 during the year related to the transaction. The District will remain liable for its proportionate share of the Agency's long-term debt and asset retirement obligations related to the San Juan Project. The Agency was 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 Agency sold its interest in the Southwest Transmission Project in 2016. 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.

During 2017 and 2016, the District incurred purchased power costs of \$53,817 and \$56,391, respectively, in connection with these Agency resources. At December 31, 2017 and 2016, the District had a payable of \$5,269 and \$5,597, respectively, to the Agency for its proportionate share of project related expenditures.

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

	2017	2016
Total assets	\$ 93,670	\$ 173,660
Total deferred outflows of resources	4,084	5,474
Total Assets and Deferred Outflows	\$ 97,754	\$ 179,134
Total liabilities	\$ 179,819	\$ 209,568
Total net position	(82,065)	(30,434)
Total Liabilities and Net Position	\$ 97,754	\$ 179,134
Changes in Net Position During the Year	\$ (51,631)	\$ 17,797

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

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

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

The long term debt of the Agency, which totals \$136,055 and \$160,995 at December 31, 2017 and 2016, 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 \$16,191 and \$18,767 for December 31, 2017 and 2016, respectively.

M-S-R ENERGY AUTHORITY

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

Billings to the members are designed to provide, over the life of the project, full recovery of costs as defined by the indenture and project contracts, and as prescribed by the Authority. Rates are structured to systematically provide for the current debt service requirements, operating costs and reserves. The net costs to be recovered from future participant billings consist primarily of timing differences related to the debt service requirements included in rates. In accordance with GASB Statement 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 2017 and 2016, the District incurred purchased gas costs of \$4,698 and \$3,992, respectively, in connection with the Authority. At December 31, 2017 and 2016, the District had a payable of \$439 and \$519, respectively, for purchased gas and project related expenses.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
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(Dollars in Thousands)

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

M-S-R ENERGY AUTHORITY (cont.)

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

	2017	2016
Total Assets	<u>\$ 904,787</u>	<u>\$ 904,707</u>
Total liabilities	\$ 904,787	\$ 904,707
Total net position	<u>-</u>	<u>-</u>
 Total Liabilities and Net Position	 <u>\$ 904,787</u>	 <u>\$ 904,707</u>
 Changes in Net Position During the Year	 <u>\$ -</u>	 <u>\$ -</u>

The long term debt of the Authority totaled \$901,620 at December 31, 2017 and 2016. The Authority did not make any principal payments in 2017 or 2016. The District's portion of the Authority's interest payments during the year were \$13,211 in 2017 and 2016.

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 2017 and 2016, the District incurred transmission costs of \$12,062 and \$12,126, 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, 2017 and 2016, the District has a receivable from TANC in the amount of \$15,597 and \$13,494, 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 \$2,500 and \$1,101 in revenues from transmission sales in the 2017 and 2016, respectively.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
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(Dollars in Thousands)

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

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

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

	<u>2017</u> (unaudited)	<u>2016</u> (unaudited)
Total Assets and Deferred Outflows of Resources	\$ 344,594	\$ 340,882
Total liabilities and deferred inflows of resources	\$ 330,927	\$ 327,296
Total net position	<u>13,667</u>	<u>13,586</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 \$ 344,594	 \$ 340,882
 Changes in Net Position for 6 Months Ended	 \$ (7,143)	 \$ (10,363)

The long term debt of TANC (unaudited), which totals \$240,197 and \$250,565 at December 31, 2017 and 2016, 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 \$4,444 and \$2,457 for December 31, 2017 and 2016, respectively.

BALANCING AUTHORITY OF NORTHERN CALIFORNIA (BANC)

The District and three other California municipal utilities formed BANC in 2009. One new member joined in 2013. BANC was formed to perform North American Electric Reliability Corporation (NERC) functions that would otherwise be performed by the BANC members or on their behalf.

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

	<u>2017</u>	<u>2016</u>
Total Assets	\$ 2,092	\$ 1,594
Total liabilities	\$ 2,092	\$ 1,594
Total net position	<u>-</u>	<u>-</u>
 Total Liabilities and Net Position	 \$ 2,092	 \$ 1,594
 Changes in Net Position During the Year	 \$ -	 \$ -

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
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NOTE 6 – INVESTMENT IN PUBLIC POWER AGENCIES (cont.)

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY

The Authority is a joint power authority that provides financing for public improvements of the District, and is accounted for as a component unit of the District. The revenues and expenses of the Authority are eliminated upon consolidation with the District. The Authority's summary financial information as of December 31, 2017 and 2016 and for the years then ended is as follows:

	2017	2016
Assets		
Current assets	\$ 12,944	\$ 12,744
Other noncurrent assets	45,395	87,592
Debt service installment receivable, less current portion	264,712	231,823
Total Assets	323,051	332,159
Deferred Outflows of Resources	25,833	28,138
Total Assets and Deferred Outflows of Resources	\$ 348,884	\$ 360,297
Liabilities and Net Position		
Current liabilities	\$ 12,630	\$ 12,398
Derivative financial instruments	23,953	25,836
Long-term debt	312,053	321,821
Other noncurrent liabilities	248	242
Net position	-	-
Total Liabilities and Net Position	\$ 348,884	\$ 360,297
	2017	2016
Revenues and Expenses		
Revenues:		
Debt service contributions	\$ 12,807	\$ 13,169
Interest income	948	784
Other non-operating income	1,259	1,343
Total Revenues	15,014	15,296
Interest expense	(15,014)	(15,296)
Change in Net Position	-	-
NET POSITION, Beginning of Year	-	-
NET POSITION, END OF YEAR	\$ -	\$ -

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

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

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY (cont.)

	2017	2016
Cash Flows		
Net cash used in noncapital financing activities	\$ (43,178)	\$ (845)
Net cash provided by (used in) investing activities	10,984	(36,887)
Net Change in Cash and Cash Equivalents	(32,194)	(37,732)
CASH AND CASH EQUIVALENTS – Beginning of the Year	37,252	74,984
CASH AND CASH EQUIVALENTS – END OF THE YEAR	\$ 5,058	\$ 37,252

NOTE 7 – LONG-TERM DEBT

LONG-TERM DEBT

The following bonds have been issued:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/17
3/17/04	2004B Certificates of Participation Bonds	7/1/35	5.00 – 5.50%	\$ 66,025	\$ -
7/25/06	2006A Certificates of Participation Bonds	10/1/36	4.00 – 5.00	146,950	-
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	62,200
6/23/10	2010A Taxable Electric System Revenue Bonds	10/1/40	4.78 – 7.20	60,325	55,675
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	80,795
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	81,675
8/14/13	2013G Domestic Water Refunding Revenue Bonds	9/11/22	2.00 – 5.00	43,270	26,335
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	28,825
10/1/16	2016 Electric System Refunding Revenue Bond	10/1/34	2.00 – 5.00	95,240	85,570

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 7 – LONG-TERM DEBT (cont.)

GENERAL DEBT TERMS

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

Interest earnings on tax exempt bond funds are subject to arbitrage rules of the Internal Revenue Service if interest earnings on the unspent tax exempt funds are greater than the stated bond yield on the tax exempt debt. As of December 31, 2017 and 2016, the District has recorded a liability of \$248 and \$242, respectively, for a potential arbitrage rebate to the IRS. Arbitrage rebates are due five years from the issuance date of the tax exempt debt.

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>
2018	\$ 38,155	32,672	\$ (1,242)	\$ 69,585
2019	39,315	30,535	(1,199)	68,651
2020	41,000	28,531	(1,153)	68,378
2021	43,425	26,407	(1,104)	68,728
2022	45,585	24,274	(1,065)	68,794
2023 – 2027	167,880	93,354	(5,327)	255,907
2028 – 2032	143,940	55,033	(5,327)	193,646
2033 – 2037	101,115	25,155	(3,363)	122,907
2038 - 2040	33,920	3,766	(794)	36,892
Total Requirements	<u>\$ 654,335</u>	<u>\$ 319,727</u>	<u>\$ (20,574)</u>	<u>\$ 953,488</u>

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions were effective March 1, 2013 for qualified bonds including the District's 2010A series Bonds. The District received a reduced interest subsidy payment during 2017 and 2016 due to budget sequestration by the federal government. In 2017 and 2016, the District recognized \$1,259 and \$1,343, 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 6.6% through the end of the federal fiscal year (September 30, 2018) or convening U.S. Congressional action, at which time the sequestration rate is subject to change.

The District had outstanding debt obligations totaling \$146,325 and \$109,995 on December 31, 2017 and 2016, respectively, which were defeased and excluded from the District's long-term debt.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 7 – LONG-TERM DEBT (cont.)

ADVANCE REFUNDING

On September 29, 2016, bonds in the amount of \$63,555 were issued with an average interest rate of 4.90% to advance refund \$66,025 of series 2004B Certificates of Participation Bonds with an average interest rate of 5.42%. 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 all future debt service payments on the old bonds. As a result, the old bonds are considered defeased and the liability for the old bonds has been removed from the balance sheet.

The cash flow requirements on the old bonds prior to the advance refunding was \$113,747 with refunding receipts of \$6,472 from 2016 through 2035. The cash flow requirements on the new bonds are \$69,771 with refunding receipts of \$6,483 from 2016 through 2035. The advance refunding resulted in an economic gain of \$29,676.

CURRENT REFUNDING

On September 29, 2016, bonds in the amount of \$31,685 were issued with an average interest rate of 4.99% to refund \$35,515 of series 2006A Certificates of Participation Bonds with an average interest rate of 4.98%. The net proceeds were used to prepay the outstanding debt service requirements on the old bonds.

The cash flow requirements on the old bonds prior to the current refunding was \$57,811 from 2016 through 2036. The cash flow requirements on the new bonds are \$45,515 with refunding receipts of \$3,232 from 2016 through 2036. The refunding resulted in an economic gain of \$9,917.

CASH DEFEASANCE

On November 21, 2017, the District used \$54,765 of cash on hand, including \$1,514 of restricted funds, to defease \$51,360 of the outstanding series 2009A Certificate of Participation Bonds. The cash on hand, net of expenses, 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 service payments on the bonds. As a result, that portion of the bonds are considered defeased and the liability for that portion of the bonds has been removed from the statement of net position.

The cash flow requirements on the old bonds prior to this transaction was \$63,783 from 2032 through 2038.

On October 1, 2016, the District used \$14,380 of cash on hand, including \$382 of restricted funds, to defease \$12,740 of the outstanding series 2009A Certificate of Participation Bonds. The cash on hand, net of expenses, 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 service payments on the bonds. As a result, that portion of the bonds are considered defeased and the liability for that portion of the bonds has been removed from the statement of net position.

The cash flow requirements on the old bonds prior to this transaction was \$30,140 from 2017 through 2039.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 7 – LONG-TERM DEBT (cont.)

LONG-TERM OBLIGATION SUMMARY

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
Domestic water					
revenue bonds	\$ 124,060	\$ -	\$ 4,535	\$ 119,525	\$ 4,760
Certificate of participation	116,545	-	54,345	62,200	3,130
Revenue bonds	501,240	-	28,630	472,610	30,265
Unamortized debt discount	(2,577)	-	(1,011)	(1,566)	-
Unamortized premium	41,109	-	7,401	33,708	-
Net pension liability	93,447	14,380	11,853	95,974	-
Other liabilities	11,839	493	945	11,387	-
Derivative financial					
instruments	26,727	-	1,746	24,981	1,048
Equity interest in M-S-R	15,217	25,816	-	41,033	-
Totals	\$ 927,607	\$ 40,689	\$ 108,444	\$ 859,852	\$ 39,203

Long-term obligation activity for the year ended December 31, 2016 is as follows:

	1/1/16 Balance	Additions	Reductions	12/31/16 Balance	Due Within One Year
Domestic water					
revenue bonds	\$ 128,380	\$ -	\$ 4,320	\$ 124,060	\$ 4,535
Certificate of participation	235,620	-	119,075	116,545	2,985
Revenue bonds	423,205	95,240	17,205	501,240	28,630
Unamortized debt discount	(2,881)	-	(304)	(2,577)	-
Unamortized premium	30,929	17,155	6,975	41,109	-
Net pension liability	76,334	29,233	12,120	93,447	-
Other liabilities	14,216	2,313	4,690	11,839	-
Derivative financial					
instruments	30,449	-	3,722	26,727	247
Equity interest in M-S-R	24,116	1,650	10,549	15,217	-
Totals	\$ 960,368	\$ 145,591	\$ 178,352	\$ 927,607	\$ 36,397

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 8 – DERIVATIVE INSTRUMENTS

SUMMARY OF NOTIONAL AMOUNTS AND FAIR VALUES

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

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

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

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of December 31, 2017 (amounts in thousands; gains shown as positive amounts, losses as negative).

	2017 Change in Fair Value		Fair Value, End of 2017		Notional (Thousands)
	Classification	Amount	Classification	Amount	
Effective Cash Flow Hedges					
Interest Rate Derivatives:					
Pay-fixed swaps, interest rate	Deferred Outflow	\$ 1,883	Derivative	\$ (23,954)	\$ 93,190
Energy Derivatives:					
Pay-fixed swaps, natural gas	Deferred Outflow	(89)	Derivative	(986)	2,281 mmBtu
Options Contracts	Deferred Outflow	(48)	Derivative	(41)	420 mmBtu

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of December 31, 2016 (amounts in thousands; gains shown as positive amounts, losses as negative).

	2016 Change in Fair Value		Fair Value, End of 2016		Notional (Thousands)
	Classification	Amount	Classification	Amount	
Effective Cash Flow Hedges					
Interest Rate Derivatives:					
Pay-fixed swaps, interest rate	Deferred Outflow	\$ 1,822	Derivative	\$ (25,837)	\$ 93,190
Energy Derivatives:					
Pay-fixed swaps, natural gas	Deferred Outflow	1,831	Derivative	(897)	2,039 mmBtu
Options Contracts	Deferred Outflow	69	Derivative	7	180 mmBtu

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 8 – DERIVATIVE INSTRUMENTS (cont.)

OBJECTIVE AND TERMS OF HEDGING DERIVATIVE INSTRUMENTS

The objectives and terms of the District's hedging derivative instruments that were outstanding at December 31, 2017 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, stabilize its finances and enhance its credit profile. The District maintains a Risk Management Program (RMP) to control the price, credit, and operational risks arising from its power and natural gas market activities. Under the RMP, authorized District personnel assemble a portfolio of swaps, options, futures, and forward contracts over time with the goal of making the District's purchased power and fuel budget more predictable.

Type	Objective	Notional (Thousands)	Effective Date	Maturity Date	Terms	Counterparty Rating
Pay-fixed swaps, interest rate	Hedge cash flows on the 2007F bonds	\$ 93,190	Jun -07	Sep-37	Pay 4.378-4.440%; Receive 67% of LIBOR	A-
Option contracts, natural gas	Hedge cash flows on PG&E citygate gas purchases	420 mmBtu	Nov-17	Dec-18	Collar with \$2.95/mmBtu floor, \$3.40 cap; Settle on NYMEX	n/a
Pay-fixed swaps, natural gas	Hedge cash flows on PG&E citygate gas purchases	2,281 mmBtu	Feb-15	Dec-20	Pay \$3.03-4.24/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, 2016 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
Option contracts, natural gas	Hedge cash flows on PG&E citygate gas purchases	180 mmBtu	Dec-16	Dec-17	Collar with \$3.15/mmBtu floor, \$4.00 cap; Settle on NYMEX	n/a
Pay-fixed swaps, natural gas	Hedge cash flows on PG&E citygate gas purchases	2,039 mmBtu	Sep-14	Dec-19	Pay \$3.13-4.84/mmBtu; Receive NGI PG&E citygate price	Between A To BBB

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

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, 2017 and 2016, 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, 2017 and 2016, the District was not in-the-money with certain of its 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 2018.

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

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 8 – DERIVATIVE INSTRUMENTS (cont.)

HEDGED DEBT

Net cash flows for the District’s synthetic fixed-rate debt are shown below. These amounts assume that the interest rates of the bonds and the reference rates of the hedging derivative instruments remain at December 31, 2017 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, 2017, 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>
2018	\$ -	\$ 1,633	\$ 2,490	\$ 4,123
2019	-	1,633	2,490	4,123
2020	-	1,633	2,490	4,123
2021	-	1,633	2,490	4,123
2022	-	1,633	2,490	4,123
2023 – 2027	23,370	7,300	11,105	41,775
2028 – 2032	29,250	5,047	7,648	41,945
2033 – 2037	40,570	2,164	3,279	46,013
Totals	<u>\$ 93,190</u>	<u>\$ 22,676</u>	<u>\$ 34,482</u>	<u>\$ 150,348</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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

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, 2016 and 2015 valuation dates, the following employees were covered by the benefit terms:

	2016	2015
Inactive employees or beneficiaries currently receiving benefits	423	404
Inactive employees entitled to but not yet receiving benefits	50	51
Active employees	434	429
Totals	907	884

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(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 \$12,833 and \$11,781, which were contributed in 2017 and 2016, 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, 2016 and 2015 for the District's December 31, 2017 and 2016 financial statements, respectively, 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, 2016 and 2015 annual actuarial valuations were 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.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

BASIC RETIREMENT PLAN (cont.)

- > 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:

<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.

MODESTO IRRIGATION DISTRICT

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

BASIC RETIREMENT PLAN (cont.)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2015	\$ 307,348	\$ 231,014	\$ 76,334
Changes for the Year			
Service cost	6,460	-	6,460
Interest on total pension liability	22,503	-	22,503
Difference between expected and actual experience	356	-	356
Employer contributions	-	12,120	(12,120)
Employee contributions	-	465	(465)
Net investment income	-	(237)	237
Benefit payments, including employee refunds	(14,508)	(14,508)	-
Administrative expense	-	(142)	142
Net Changes	14,811	(2,302)	17,113
Balances at December 31, 2016	322,159	228,712	93,447
Changes for the Year			
Service cost	6,126	-	6,126
Interest on total pension liability	23,581	-	23,581
Difference between expected and actual experience	1,583	-	1,583
Employer contributions	-	11,854	(11,854)
Employee contributions	-	739	(739)
Net investment income	-	16,325	(16,325)
Benefit payments, including employee refunds	(15,562)	(15,562)	-
Administrative expense	-	(155)	154
Net Changes	15,728	13,201	2,526
Balances as of December 31, 2017	\$ 337,887	\$ 241,913	\$ 95,974

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
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NOTE 9 – EMPLOYEE RETIREMENT PLAN (cont.)

BASIC RETIREMENT PLAN (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.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability as of 12/31/2017	\$ 137,287	\$ 95,974	\$ 61,198
Net pension liability as of 12/31/2016	133,149	93,447	60,020

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, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. For the year ended December 31, 2017 and 2016, the employer recognized pension expense of \$16,203 and \$15,006, respectively. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	December 31, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 12,313	\$ -
Differences between expected and actual experience	1,544	-
Contributions subsequent to the measurement date *	13,155	-
Totals	\$ 27,012	\$ -
	December 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 15,386	\$ -
Differences between expected and actual experience	294	-
Contributions subsequent to the measurement date *	11,854	-
Totals	\$ 27,534	\$ -

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date was recognized as a reduction in the net pension liability in the subsequent year.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(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
2018	\$ 4,486
2019	4,486
2020	4,123
2021	536
2022	226

Payable to the Pension Plan. At December 31, 2017 and 2016, the employer did not have a payable for any outstanding amount of contributions to the pension plan required.

The 2017 and 2016 required contributions were determined as part of the January 1, 2017 and January 1, 2016 actuarial valuations, respectively, 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.

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 \$2,205 and \$2,091 for 2017 and 2016, respectively.

HEALTH CARE BENEFITS

Plan Description. The Retiree Medical 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
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NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

HEALTH CARE BENEFITS (cont.)

Funding Policy. Currently 355 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 (Asset). 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, 2017, the most recently completed actuarial valuation, include the following, all reflecting annual compounding:

- > Rate of return on the investment of present and future assets of 7.5% per year;
- > Discount rate applied to the pension benefit obligation of 7.5% per year;
- > Salary increases of 4.0% per year (an increase from 3.5% in the previous study); and
- > Projected health care cost increases of 6.5% in 2017 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 twenty 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 (asset) (dollar amounts in thousands).

	2017	2016
Annual required contribution	\$ 6,635	\$ 6,956
Interest on net OPEB obligation (asset)	(219)	(72)
Adjustment to annual required contribution	197	35
Annual OPEB cost (expense)	6,613	6,919
Contributions made	8,607	9,234
Increase (decrease) in net OPEB obligation (asset)	(1,994)	(2,315)
Net OPEB obligation (asset), beginning of period	(2,921)	(606)
Net OPEB Obligation (Asset), End of Period	\$ (4,915)	\$ (2,921)

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(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 2017, 2016, and 2015 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
12/31/17	\$ 6,635	129.72%	\$ (4,915)
12/31/16	6,956	132.75%	(2,921)
12/31/15	6,995	113.91%	(606)

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)
1/01/17	\$ 44,382	\$ 111,698	\$ 67,316	39.70%	\$ 39,581	170.07%
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%

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
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NOTE 10 – RETIREE MEDICAL PLAN

The following disclosures relate to the Retiree Medical Plan as required by GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

PLAN DESCRIPTION

The following description of the District Retiree Medical Program (Retiree Medical Plan) provides only general information. Participants should refer to the Retiree Medical Plan agreement for a more complete description of the Retiree Medical Plan's provisions.

Plan administration. The Retiree Medical Plan 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.

The Retiree Medical Plan is governed by ten committee members. The ten member committee consist of: two District Board Of Directors, the General Manager of the District, an employee who serves as chief financial officer of the District, an employee who serves as legal counsel to the District, an employee who serves as chief human resources manager of the District, an employee employed in the Utility Services and Maintenance bargaining unit, an employee employed in the Administrative, Technical and Clerical bargaining unit, an employee employed in the Professional and Supervisory bargaining unit, and an employee employed in the Modesto Irrigation District Employees Association bargaining unit.

Plan provisions and contribution requirements were established by and may be amended by the District's Board of Directors.

Plan membership. At December 31, 2017, Retiree Medical Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	355
Inactive plan members entitled to but not yet receiving benefit payments	-
Active and disabled plan members	<u>428</u>
Total	<u><u>783</u></u>

Benefits provided. 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. Section 5.03 of the Retiree Medical Plan Agreement grants the authority to establish and amend the benefit terms to the Retirement Committee.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 10 – RETIREE MEDICAL PLAN (cont.)

PLAN DESCRIPTION (cont.)

Contributions. Section 5.03 of the Retiree Medical Plan Agreement grants the authority to establish and amend the contribution requirements of the District and Retiree Medical Plan members to the Retirement Committee. The Retiree Medical Plan Agreement directs the District to make contributions based on an actuarially determined rate. The District reserves the right to suspend or reduce the contributions otherwise payable to the Retiree Medical Plan by the District. For the year ended December 31, 2017, the District's average contribution rate was 4.51% of covered-employee payroll. Plan members are not required to contribute to the plan.

INVESTMENTS

Investment policy. The Retiree Medical Plan's policy in regard to the allocation of invested assets is established and may be amended by the Retirement Committee. It is the policy of the Retirement Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Retiree Medical Plan's investment policy includes restrictions for investments related to maximum amounts invested as a percentage of total portfolio, with a single issuer, and within market sectors and styles, minimum market capitalization, maximum maturities, and minimum credit ratings. See the target investment mix below. The total return should exceed the Retiree Medical Plan's actuarial assumption of 7.5%. The Retiree Medical Plan's investment policy does not establish long-term expected rates of return for each asset class. The following was the Board's adopted asset allocation policy as of December 31, 2017:

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

Rate of return. For the year ended December 31, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 16.0% percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 10 – RETIREE MEDICAL PLAN (cont.)

NET OPEB LIABILITY OF THE DISTRICT

The components of the net OPEB liability of the District at December 31, 2017, were as follows:

Total OPEB liability	\$	179,652
Retiree Medical Plan fiduciary net position		<u>(52,180)</u>
District's net OPEB liability	\$	<u>127,472</u>
Retiree Medical Plan fiduciary net position as a percentage of the total OPEB liability		29.0%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	January 1, 2017
Inflation	2.5 %
Salary increases	4.0 %
Investment rate of return	7.5 %
Healthcare cost trend rates	6.5% for 2017, decreasing 0.5 percent per year to an ultimate rate of 4.5% for 2021 and later years

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, projected with 75% of Scale AA.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 10 – RETIREE MEDICAL PLAN (cont.)

NET OPEB LIABILITY OF THE DISTRICT (cont.)

Discount rate. The discount rate used to measure the total OPEB liability was 3.44%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position will not be available to make all projected future benefit payments of current plan members. Therefore, a blended rate was used based on the long-term expected rate of return on OPEB plan investments and the S&P Municipal Bond 20 Year High Grade Index was used to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.44%) or 1-percentage-point higher (4.44%) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Net OPEB liability	\$ 156,353	\$ 127,472	\$ 104,679

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 % decreasing to 3.5%) or 1-percentage-point higher (7.5% decreasing to 5.5%) than the current healthcare cost trend rates:

	1% Decrease (5.5% Decreasing to 3.5%)	Healthcare Cost Trend Rates (6.5% Decreasing to 4.5%)	1% Increase (7.5% Decreasing to 5.5%)
Net OPEB liability	\$ 101,314	\$ 127,472	\$ 160,908

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 11 – 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 2017 and 2016 totaled \$5,725 and \$7,934, respectively. While the current LTESA expired June 30, 2016, 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, 2017:

2018	\$	4,060
2019		4,060
2020		4,060
2021		4,060
2022		4,060

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 2021. Total commitments under these agreements over the next five years are as follows as of December 31, 2017:

2018	\$	76,516
2019		65,852
2020		69,109
2021		66,843
2022		67,268

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 12 – CONTINGENCIES

RATE SUBSIDY LITIGATION

Two class action lawsuits have been filed against the District, *Thomas v. Modesto Irrigation District* and *Hobbs v. Modesto Irrigation District*, 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. In September of 2016, a Judgment was issued by the Court dismissing the *Thomas* action.

The sole, outstanding class action lawsuit challenging the District's rates, *Hobbs v. Modesto Irrigation District*, has been stayed by the Stanislaus County Superior Court pending the Supreme Court deciding *Citizens for Fair REU Rates v. City of Redding*. The lawsuit alleges that the District uses funds collected from electric customers to subsidize its water operations and, as a result, amounts collected and applied for such purpose exceed the costs to the District of providing electric service and constitute a tax on its electric customers requiring voter approval under Proposition 26 and seeks refunds of the alleged illegal taxes. The District prevailed on its motion to strike the request for jury trial. Thus, the case will be a bench trial limited to the administrative record. The District is unable to predict the outcome of the litigation or the extent to which remedies against it may be available if the District is ultimately unsuccessful in the litigation. The District is vigorously defending this matter.

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 \$34,064 for various capital and operating projects. As of December 31, 2017, approximately \$25,088 has been expended.

Electric Purchase Contracts. The District has entered into numerous electric purchase contracts with amounts totaling approximately 1,624 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 \$26.33 to \$109.50 per MWh. These contracts expire periodically from March 2018 through October 2020. In addition, the District has entered into contracts for power generated by hydroelectric, solar and wind resources where the amount and cost will depend on weather variables. The hydro, solar and wind contracts expire periodically from December 2024 through December 2040.

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 \$3.00 to \$4.24 per million British Thermal Units (mmbtu). The amounts total to approximately 7.5 million mmbtu and the contracts expire periodically from January 2018 through December 2025.

MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016
(Dollars in Thousands)

NOTE 13 – 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.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Claims liability – beginning of year	\$ 508	\$ 560	\$ 549
Claims accrued	487	1,104	431
Claims paid/other	<u>(533)</u>	<u>(1,156)</u>	<u>(420)</u>
Claims Liability - End of Year	<u>\$ 462</u>	<u>\$ 508</u>	<u>\$ 560</u>

REQUIRED SUPPLEMENTARY INFORMATION

MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

For the Years Ended December 31, 2017 and 2016

(Dollars in Thousands)

Other Post Employment Benefits (OPEB) Required Supplementary Information – GASB Statement No. 45

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)
1/01/17	\$ 44,382	\$ 111,698	\$ 67,316	39.70%	\$ 39,581	170.07%
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%

MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
As of December 31, 2017
(Dollars in Thousands)

Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios - GASB Statement No. 74

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 4,479
Interest	6,263
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	10,207
Benefit payments	<u>(7,049)</u>
Net Change in Total OPEB Liability	13,900
Total OPEB Liability - Beginning	<u>165,752</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 179,652</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 7,749
Contributions - employee	25
Net investment income	7,180
Benefit payments	(5,935)
Administrative expenses	<u>(79)</u>
Net Change in Plan Fiduciary Net Position	8,940
Plan Fiduciary Net Position - Beginning	<u>43,240</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 52,180</u></u>
Net OPEB Liability - Ending (a) - (b)	<u><u>\$ 127,472</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	29.05%
Covered-employee payroll	\$ 40,803
Net OPEB liability as a percentage of covered-employee payroll	312.41%
Annual Money Weighted Rate of Return on OPEB Plan Investments	16.00%

Notes to Schedule:

The District implemented GASB Statement No. 74 in fiscal year 2017. Information prior to fiscal year 2017 is not available.

MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
As of December 31, 2017
(Dollars in Thousands)

Schedule of Employer's Contributions - GASB Statement No. 74

	2017
Actuarially determined contribution	\$ 1,646
Contributions in relation to the actuarially determined contribution	1,839
Contribution Deficiency (Excess)	\$ (193)
Covered-employee payroll	\$ 40,803
Contributions as a percentage of covered-employee payroll	4.51%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31 of the prior year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Normal cost method
Amortization method	Level percentage of payroll, open
Amortization period	20 years decreasing annually from 2017
Asset valuation method	Fair value
Inflation	2.5 percent
Healthcare cost trend rates	6.5 percent initial, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent
Salary increases	4.0 percent
Investment rate of return	7.5 percent, net of OPEB plan investment expense, including inflation.
Single equivalent discount rate	3.4 percent
Retirement age	Retirement probability begins at 10.0 percent upon obtaining the age of 55, decreasing to 5.0 percent at age 56, then increasing to 15.0 percent at age 59. At age 62 retirement probability increases to 50.0 percent and increases to 100.0 percent at age 70
Mortality	RP-2000 Blue Collar Generational Mortality Table projected with a 75% Scale AA.

Other information:

The District implemented GASB Statement No. 74 in fiscal year 2017. Information prior to fiscal year 2017 is not available.

MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
As of December 31, 2017
(Dollars in Thousands)

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability			
Service cost	\$ 6,126	\$ 6,460	\$ 5,996
Interest	23,581	22,503	21,705
Difference between expected and actual experience	1,583	356	-
Benefit payments including employee refunds	<u>(15,562)</u>	<u>(14,508)</u>	<u>(13,448)</u>
Net Change in Total Pension Liability	<u>15,728</u>	<u>14,811</u>	<u>14,253</u>
Total Pension Liability beginning	<u>322,159</u>	<u>307,348</u>	<u>293,095</u>
 Total Pension Liability ending	 <u>\$ 337,887</u>	 <u>\$ 322,159</u>	 <u>\$ 307,348</u>
 Plan Fiduciary Net Position			
Contributions-employer	\$ 11,854	\$ 12,120	\$ 13,221
Contributions-employee	739	465	72
Net Investment income	16,325	(237)	14,852
Benefit payments including employee refunds	(15,562)	(14,508)	(13,448)
Administrative expense	<u>(155)</u>	<u>(142)</u>	<u>(159)</u>
Net Change in Plan Fiduciary Net Position	<u>13,201</u>	<u>(2,302)</u>	<u>14,538</u>
 Plan Fiduciary Net Position beginning	 <u>228,712</u>	 <u>231,014</u>	 <u>216,476</u>
 Plan Fiduciary Net Position ending	 <u>\$ 241,913</u>	 <u>\$ 228,712</u>	 <u>\$ 231,014</u>
 Employer Net Pension Liability	 <u>\$ 95,974</u>	 <u>\$ 93,447</u>	 <u>\$ 76,334</u>
 Plan Fiduciary Net Position as a percentage of the Total Pension Liability	 71.60%	 70.99%	 75.16%
 Covered Employee Payroll	 \$ 39,112	 \$ 38,211	 \$ 35,448
Employer's Net Pension Liability as a percentage of covered employee payroll	245.38%	244.56%	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.

See independent auditors' report.

MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

As of December 31, 2017

(Dollars in Thousands)

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial determined contributions *	\$ 12,833	\$ 11,781	\$ 12,057
Contributions in relation to the actuarially determined contribution	<u>13,155</u>	<u>11,854</u>	<u>12,120</u>
Contribution Deficiency (Excess)	<u>\$ (322)</u>	<u>\$ (73)</u>	<u>\$ (63)</u>
Covered employee payroll	\$ 41,274	\$ 39,112	\$ 38,211
Contributions as a percentage of covered employee payroll	32%	30%	32%

Notes to Schedule

Valuation date	Actuarial determined contributions are calculated as of December 31 of the prior year.
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	65
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, 2017 and 2016

	<i>(Dollars in Thousands)</i>							
	Basic Retirement Plan		Supplemental Retirement Plan		Retiree Medical Plan		Total Fiduciary Funds	
	2017	2016	2017	2016	2017	2016	2017	2016
ASSETS								
CASH AND CASH EQUIVALENTS	\$ 11,265	\$ 12,829	\$ 206	\$ 166	\$ 274	\$ 72	\$ 11,745	\$ 13,067
RECEIVABLES								
Accrued interest	309	256	-	-	-	-	309	256
Other receivable	593	-	-	-	-	-	593	-
Dividends	33	29	-	-	-	-	33	29
INVESTMENTS AT FAIR VALUE								
Fixed income securities	35,371	28,512	-	-	-	-	35,371	28,512
Publicly traded stocks	38,900	32,689	-	-	-	-	38,900	32,689
US Agency Securities	4,233	4,432	-	-	-	-	4,233	4,432
Stable value	-	-	15,040	14,646	-	-	15,040	14,646
Mutual funds	185,036	148,291	101,573	86,844	51,973	43,222	338,582	278,357
Hedge funds	1,271	15,649	-	-	-	-	1,271	15,649
Total Assets	277,011	242,687	116,819	101,656	52,247	43,294	446,077	387,637
LESS: ACCRUED LIABILITIES	847	773	-	-	67	54	914	827
NET POSITION HELD IN TRUST FOR RETIREE BENEFITS	<u>\$ 276,164</u>	<u>\$ 241,914</u>	<u>\$ 116,819</u>	<u>\$ 101,656</u>	<u>\$ 52,180</u>	<u>\$ 43,240</u>	<u>\$ 445,163</u>	<u>\$ 386,810</u>

MODESTO IRRIGATION DISTRICT

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION As of December 31, 2017 and 2016

	<i>(Dollars in Thousands)</i>							
	Basic Retirement Plan		Supplemental Retirement Plan		Retiree Medical Plan		Total Fiduciary Funds	
	2017	2016	2017	2016	2017	2016	2017	2016
ADDITIONS								
Additions to (reductions from) net position attributed to:								
Investment income (loss):								
Net appreciation (depreciation) of investments	\$ 34,931	\$ 13,977	\$ 9,987	\$ 3,476	\$ 6,193	\$ 2,114	\$ 51,111	\$ 19,567
Dividend income	2,613	1,486	4,353	2,879	984	788	7,950	5,153
Interest income	1,372	1,969	-	-	3	-	1,375	1,969
Investment expenses	<u>(1,051)</u>	<u>(1,106)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,051)</u>	<u>(1,106)</u>
Net investment income (loss)	37,865	16,326	14,340	6,355	7,180	2,902	59,385	25,583
Contributions								
Employee contributions	477	739	2,205	2,092	25	23	2,707	2,854
Employer contributions	13,155	11,854	2,205	2,091	7,749	7,821	23,109	21,766
Other contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>51</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51</u>
Total Contributions	<u>13,632</u>	<u>12,593</u>	<u>4,410</u>	<u>4,234</u>	<u>7,774</u>	<u>7,844</u>	<u>25,816</u>	<u>24,671</u>
Total Additions	<u>51,497</u>	<u>28,919</u>	<u>18,750</u>	<u>10,589</u>	<u>14,954</u>	<u>10,746</u>	<u>85,201</u>	<u>50,254</u>
DEDUCTIONS								
Deductions from net position attributed to:								
Distributions to plan members and beneficiaries	17,058	15,562	3,569	5,541	-	-	20,627	21,103
Medical premiums paid	-	-	-	-	5,935	5,440	5,935	5,440
Administrative expenses	154	119	18	49	79	69	251	237
Consultant and professional services expenses	<u>35</u>	<u>35</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35</u>	<u>35</u>
Total Deductions	<u>17,247</u>	<u>15,716</u>	<u>3,587</u>	<u>5,590</u>	<u>6,014</u>	<u>5,509</u>	<u>26,848</u>	<u>26,815</u>
Net increase in net position held in trust for retiree benefits	34,250	13,203	15,163	4,999	8,940	5,237	58,353	23,439
NET POSITION HELD IN TRUST FOR RETIREE BENEFITS								
Beginning of year	<u>241,914</u>	<u>228,711</u>	<u>101,656</u>	<u>96,657</u>	<u>43,240</u>	<u>38,003</u>	<u>386,810</u>	<u>363,371</u>
END OF YEAR	<u>\$ 276,164</u>	<u>\$ 241,914</u>	<u>\$ 116,819</u>	<u>\$ 101,656</u>	<u>\$ 52,180</u>	<u>\$ 43,240</u>	<u>\$ 445,163</u>	<u>\$ 386,810</u>