

# **MODESTO IRRIGATION DISTRICT**

Modesto, California

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2018 and 2017

# 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, 2018 and 2017, 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 as of December 31, 2018 and 2017, 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. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective January 1, 2018. 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 24, 2019

# MODESTO IRRIGATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017 - Unaudited

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### **Overview:**

The following management discussion and analysis of the Modesto Irrigation District and its fiduciary funds (District) provides an overview of the financial activities and transactions for fiscal years 2018 and 2017 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, 2018 and 2017 - Unaudited

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### **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 and other retirement benefits.

**MODESTO IRRIGATION DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017 - Unaudited

The following is a comparative financial summary for years ending December 31, 2018, 2017, and 2016.

**Financial Summary**

**Balance Sheet**

(\$ in thousands)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Change from 2017 to 2018</u>
<b>Assets and Deferred Outflows of Resources</b>				
Utility plant, net	\$ 707,801	\$ 717,673	\$ 717,198	\$ (9,872)
Other noncurrent assets and investments	378,947	292,359	314,726	86,588
Current assets	169,857	135,660	160,087	34,197
Deferred outflows of resources	<u>64,629</u>	<u>63,366</u>	<u>68,144</u>	<u>1,263</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 1,321,234</u></b>	<b><u>\$ 1,209,058</u></b>	<b><u>\$ 1,260,155</u></b>	<b><u>\$ 112,176</u></b>
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>				
Long-term debt, net	\$ 576,865	\$ 616,180	\$ 705,695	\$ (39,315)
Noncurrent liabilities	294,354	204,469	185,515	89,885
Current liabilities	77,766	82,337	81,378	(4,571)
Deferred inflow of resources	52,388	43,101	42,865	9,287
Net position				
Net investment in capital assets	143,940	110,441	62,377	33,499
Unrestricted	<u>175,921</u>	<u>152,530</u>	<u>182,325</u>	<u>23,391</u>
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<b><u>\$ 1,321,234</u></b>	<b><u>\$ 1,209,058</u></b>	<b><u>\$ 1,260,155</u></b>	<b><u>\$ 112,176</u></b>
<b>Statement of Revenues, Expenses, and Changes in Net Position</b>				
(\$ in thousands)				
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>Change from 2017 to 2018</u>
Operating revenues	\$ 412,328	\$ 384,392	\$ 413,790	\$ 27,936
Operating expenses	<u>(337,893)</u>	<u>(340,443)</u>	<u>(347,161)</u>	<u>2,550</u>
Operating income (loss)	74,435	43,949	66,629	30,486
<b>Non-operating Income (Expenses)</b>				
Investment and other income, net	8,489	4,028	3,592	4,461
Interest expense	(32,567)	(36,737)	(39,598)	4,170
Other non-operating income, net	<u>4,504</u>	<u>5,294</u>	<u>4,568</u>	<u>(790)</u>
Non-operating income (expense)	(19,574)	(27,415)	(31,438)	7,841
Contributed Capital - Electric/Water	2,029	1,735	1,263	294
Change in net position	<u>56,890</u>	<u>18,269</u>	<u>36,454</u>	<u>38,621</u>
Net position, beginning of year	<u>262,971</u>	<u>244,702</u>	<u>208,248</u>	<u>18,269</u>
<b>Net Position, End of Year</b>	<b><u>\$ 319,861</u></b>	<b><u>\$ 262,971</u></b>	<b><u>\$ 244,702</u></b>	<b><u>\$ 56,890</u></b>

# MODESTO IRRIGATION DISTRICT

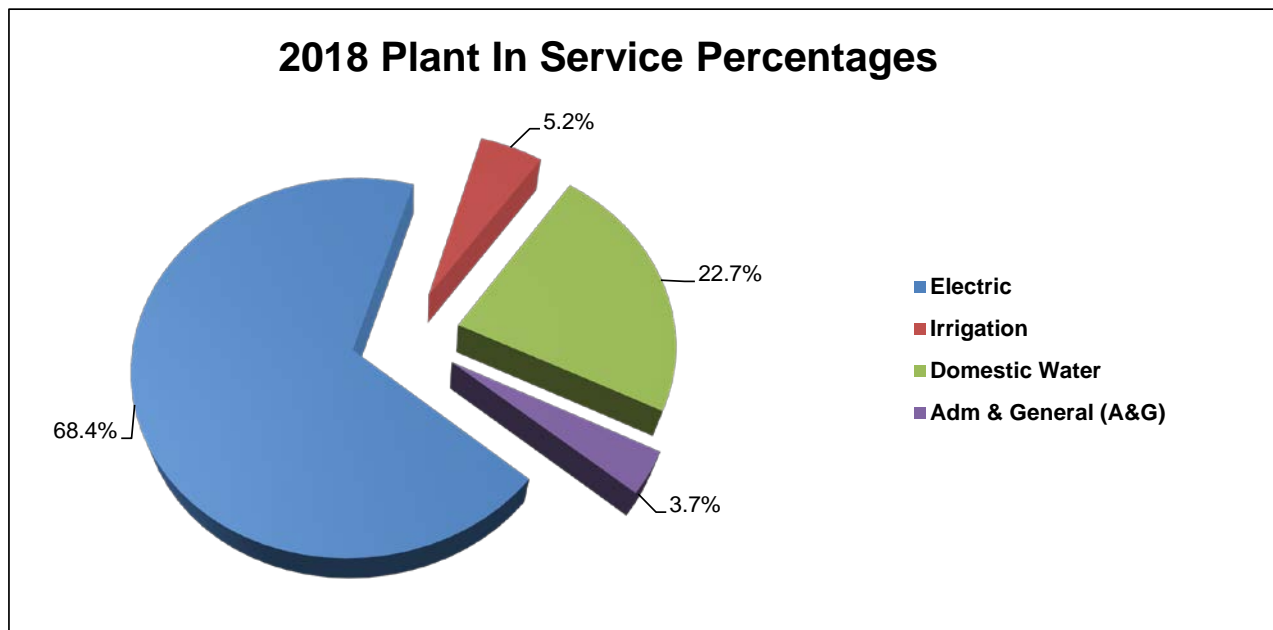
## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017 - Unaudited

### ASSETS and DEFERRED OUTFLOWS

#### *Utility Plant, net*

MID has invested approximately \$707.8 million in utility plant assets net of accumulative depreciation and transferred approximately \$26.9 million of assets from construction in progress to utility plant in service in 2018. This includes \$20.4 million in electric plant in service including \$4.7 million in painting 230kV towers. It also includes improvements of \$1.1 million in domestic water plant for new membranes and new Scada infrastructure. The following chart reflects the percentage breakdown of Utility Plant net of depreciation by category as of December 31, 2018.



Utility plant decreased by approximately \$9.9 million in 2018 due to additions to in plant in service of \$26.1 million, which included \$4.7 million for the painting of 230kV towers, and an increase of \$4.6 million construction work in progress, offset by an increase in accumulated depreciation of \$40.6 million.

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.

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

Other non-current assets and investments increased \$86.6 million in 2018. The increase is due to the implementation of GASB 75 and the addition of the regulatory costs for future recovery related to Other post employment benefits (OPEB) of \$118.0 million. This increase is offset by a \$30.3 million decrease in Investments - unrestricted based on a combination of changes in the District's portfolio between long-term investments and Cash and investments - unrestricted in current assets.

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.



# MODESTO IRRIGATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017 - Unaudited

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### ***Current assets***

Current assets increased by approximately \$34.1 million in 2018. The increase is based on a combination of changes in the District's portfolio between long-term Investments - unrestricted and current Cash and investments - unrestricted. Current assets for Cash and investments - unrestricted increased \$39.8 million over prior year, partially offset by a decrease in Customer accounts receivable, net of \$8.0 million. This decrease is due to collections resuming after implementing a new customer billing system in September, 2017.

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.

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

In 2018 deferred outflows of resources increased by \$1.3 million. The change is due to a \$9.6 million decrease in Deferred outflows related to pension, the addition of \$18.6 million in Deferred outflows related to OPEB due to the implementation of GASB 75, a decrease in Unamortized loss on advanced refunding of \$2.2 million due to scheduled amortization during the current year, and a decrease in Deferred cash flow hedges of approximately \$5.5 million.

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.

## **LIABILITIES AND NET POSITION**

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

Long-term debt decreased by \$39.3 million in 2018 due to scheduled debt service payments for 2019.

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.

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

Non-current liabilities increased by \$89.9 million in 2018. This increase is primarily due to the implementation of GASB 75 and the addition of the Net OPEB liability of \$127.5 million, offset by a decrease of \$15.7 million related to the Net pension liability, a decrease of \$9.8 million in Equity interest in MSR, and also due to a decrease related to scheduled amortization of unamortized premium of \$6.6 million.

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.

# MODESTO IRRIGATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017 - Unaudited

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### ***Current liabilities***

Current liabilities decreased by \$4.6 million in 2018 due to a decrease in Accounts payable and other accruals of \$4.0 million and a decrease in Interest payable of \$0.7 million.

Current liabilities increased by \$1.0 million in 2017 due to an 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 one-year of \$0.8 million, offset by a decrease in Interest payable of \$1.4 million.

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

Deferred inflow of resources increased by \$9.3 million in 2018 due to the addition of Deferred inflows related to pension of \$7.4 million and Deferred inflows related to OPEB of \$3.0 million. This is partially offset by a decrease in 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 2018 the amount decreased by \$1.1 million.

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 2018, the District's net investment in capital assets increased by \$33.5 million primarily due to investments in fixed assets, scheduled debt service payments of \$38.2 million.

Unrestricted net position increased by approximately \$23.4 million in 2018 primarily due to an increase in Operating revenues of \$27.9 million.

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.

# MODESTO IRRIGATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017 - Unaudited

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

#### Operating Revenues

##### Changes from 2017 to 2018

In 2018, Operating revenue increased by \$27.9 million or approximately 7.27%.

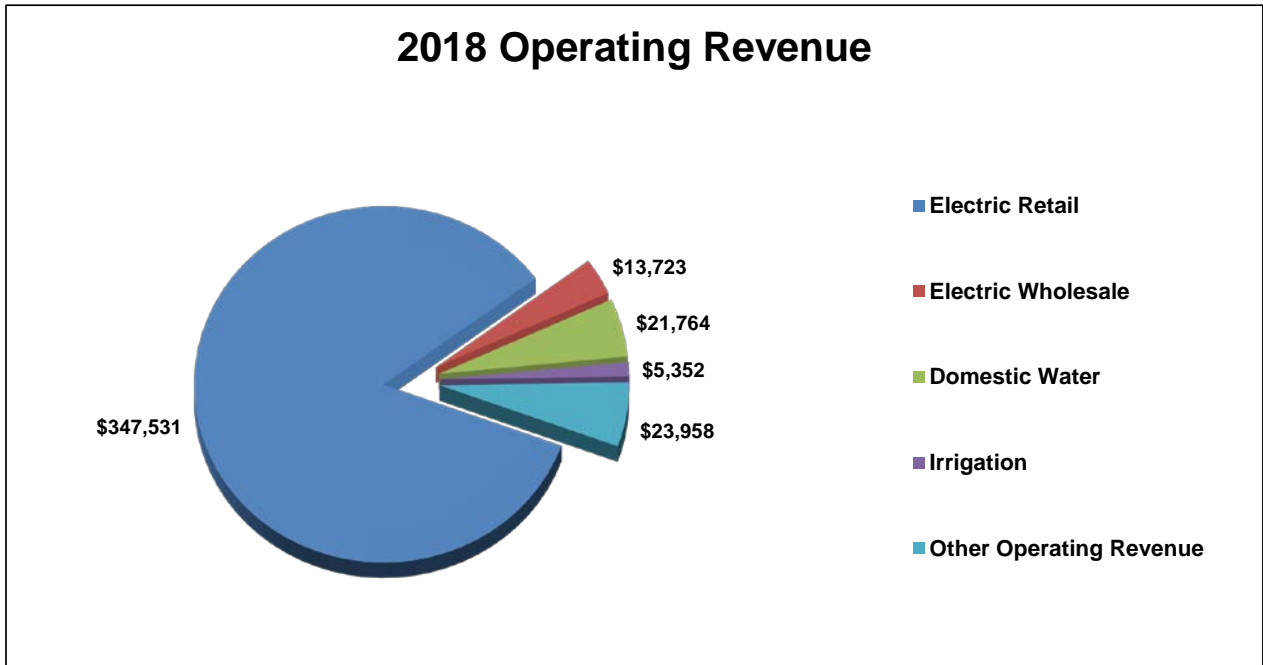
Retail electric revenue decreased by \$14.7 million or approximately 4.1%. Retail consumption decreased over the prior year due to a more mild summer when compared to 2017.

Wholesale electric revenue increased by \$3.0 million or approximately 27.6% due to an increase in Lodi Energy Center revenue of \$3.6 million over prior year.

In 2018, Domestic Water revenue remained relatively flat over the prior year with a small increase of \$801 thousand.

Other operating revenue increased by \$38.8 million or 261.5% primarily due to an increase of \$36.4 million related to equity in public power agencies.

The following is the District's 2018 operating revenue (**dollars are in thousands**):



# MODESTO IRRIGATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017 - Unaudited

### Operating Revenues

#### Changes from 2016 to 2017

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

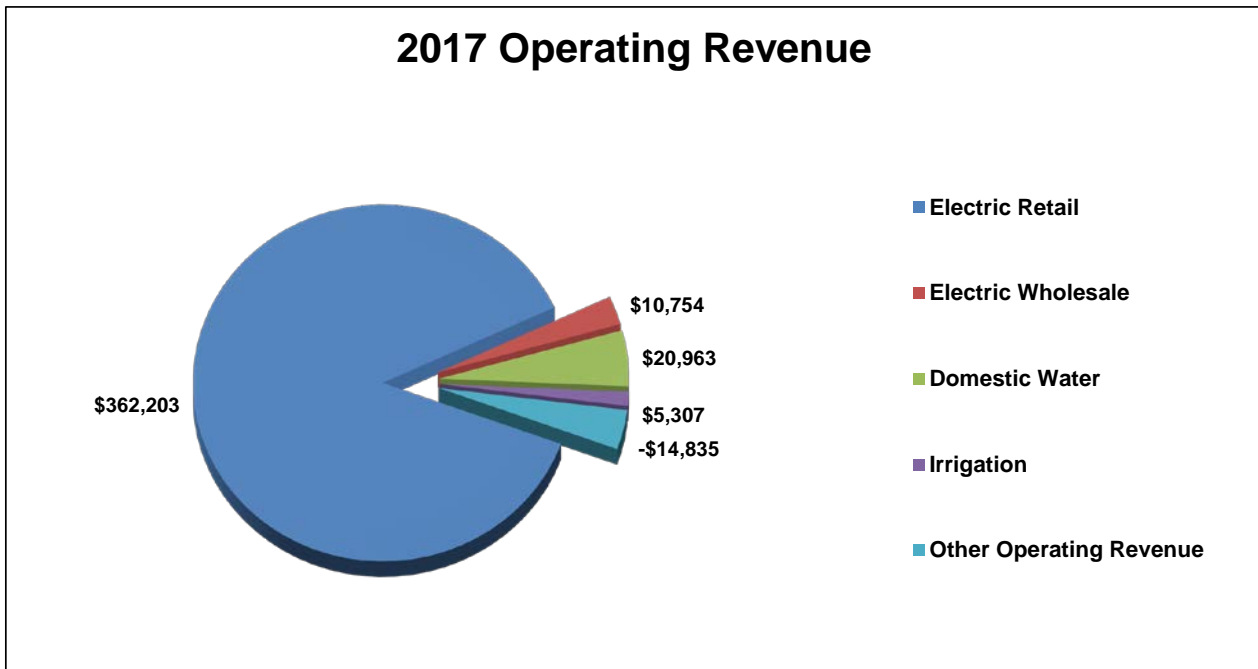
Retail electric revenue increased by \$6.0 million or approximately 1.7%. Retail consumption increased over the prior year due to increases in customer demand.

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, 2018 and 2017 - Unaudited

### Operating Expenses

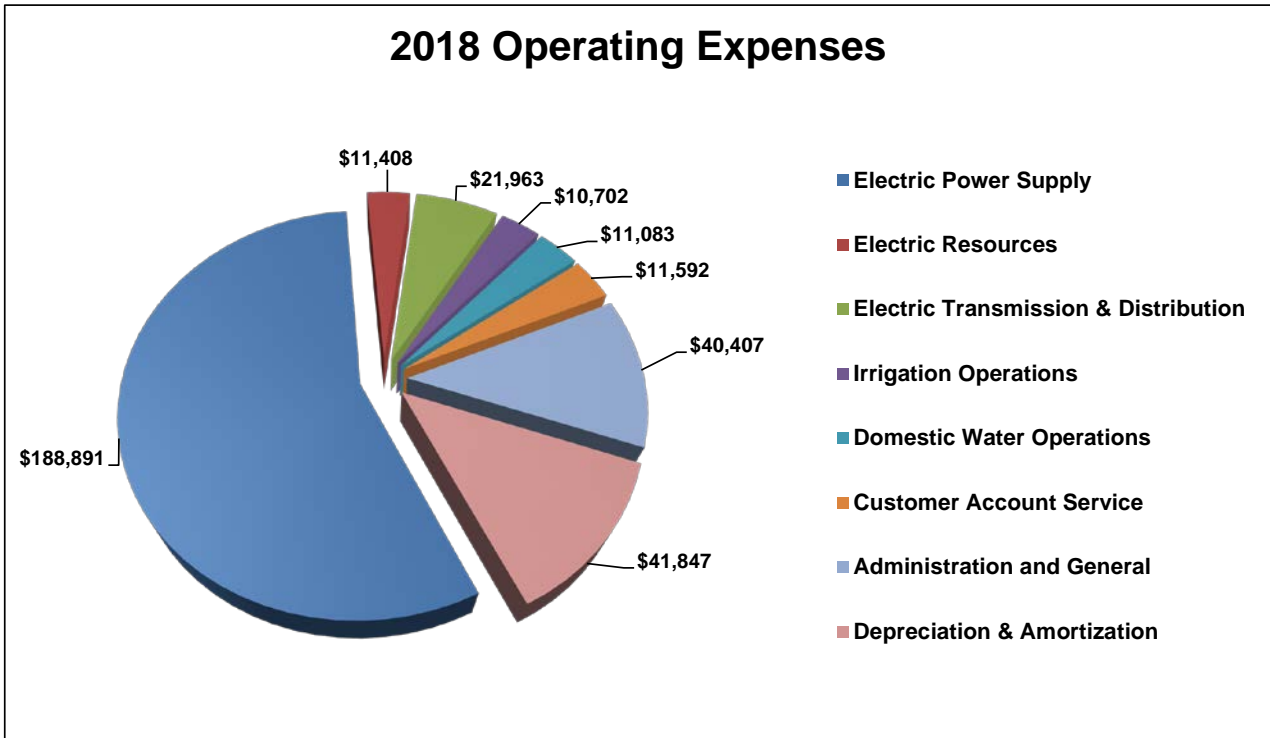
#### Changes from 2017 to 2018

Total operating expenses reflect a decrease of approximately \$2.5 million in 2018. The decrease is due to decreased costs for Purchased power of \$3.9 million and decreased costs for power generation of \$5.0 million. These decreases are offset by increases in Electric resources and Electric transmission and distribution of \$3.1 million, and \$2.3 million increase in Depreciation and amortization.

Purchased power and power generation expenses for 2018 reflect a decrease of approximately \$8.9 million or 4.5%. The change is mainly due to a decrease in Purchased power costs and lower natural gas prices tied to lower consumption in 2018 when compared to 2017.

Expenses for Domestic Water increased by \$1.3 million when compared to 2017. These increased costs reflect a full year of operating the expansion of the plant. Irrigation operations remained relatively flat when compared to 2017.

The following depicts the 2018 operational expenses (**dollars are in thousands**):



# MODESTO IRRIGATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017 - Unaudited

### Operating Expenses

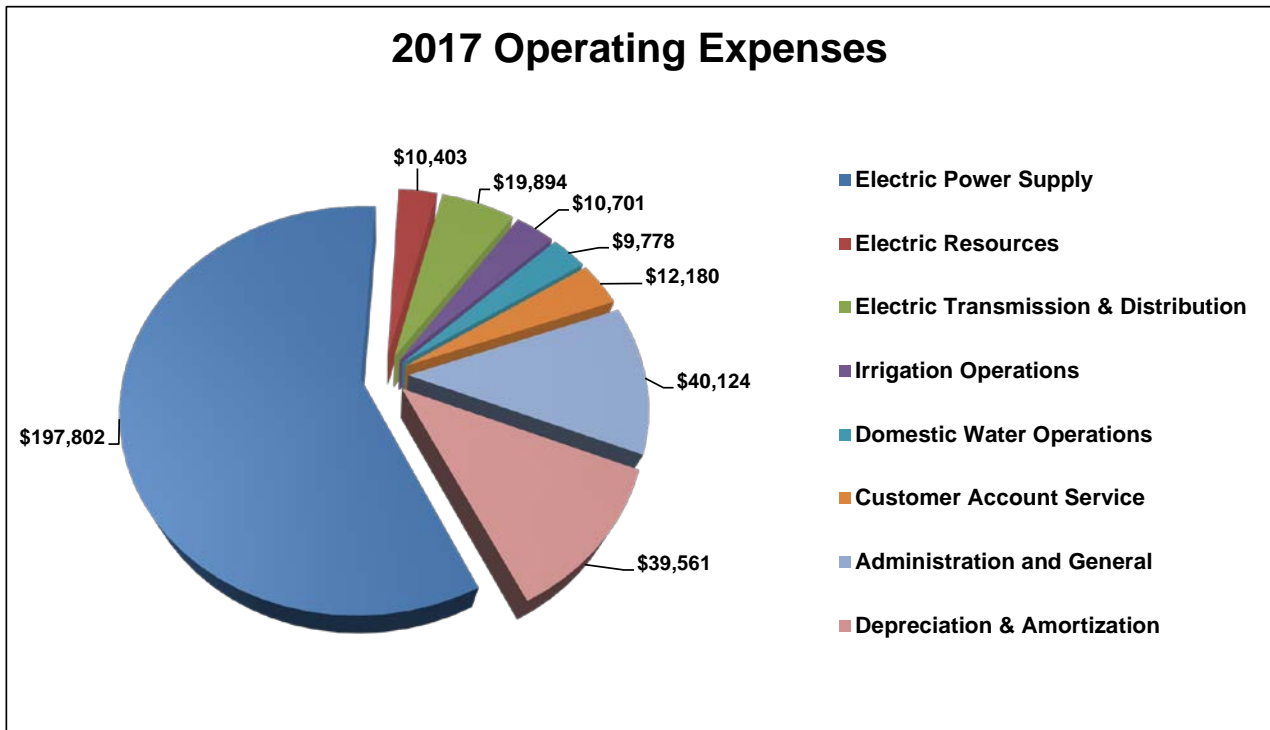
#### Changes from 2016 to 2017

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, 2018 and 2017 - Unaudited

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

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

Investment income increased in 2018 by \$1.2 million due to an increase in interest received on investments and lower unrealized losses on investments held.

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.

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

Interest expense for 2018 decreased \$4.2 million over prior year due to scheduled interest payments.

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

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

Other non-operating income increased in 2018 by \$7.8 million over the prior year. This was due to a decrease in interest expense of \$4.2 million related to scheduled debt service payments and a decrease in amortization of loss on refunding of \$4.5 million

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, 2018 and 2017

	<i>(Dollars in Thousands)</i>	
<b>ASSETS AND DEFERRED OUTFLOWS</b>	2018	2017
<b>CAPITAL ASSETS</b>		
Plant in service	\$ 1,360,366	\$ 1,334,226
Less accumulated depreciation	<u>(687,511)</u>	<u>(646,895)</u>
Plant in service - net	672,855	687,331
Construction work in progress	<u>34,946</u>	<u>30,342</u>
Total Capital Assets	<u>707,801</u>	<u>717,673</u>
 <b>OTHER ASSETS AND INVESTMENTS</b>		
Cash and investments - restricted	69,705	69,212
Investments - unrestricted	94,538	124,844
Interest receivable - restricted	339	339
Capital improvement fund	6,864	7,213
Regulatory costs for future recovery	183,559	65,534
Equity interest in TANC	5,348	3,136
Other long-term assets	<u>18,594</u>	<u>22,081</u>
Total Other Assets and Investments	<u>378,947</u>	<u>292,359</u>
 <b>CURRENT ASSETS</b>		
Cash and investments - unrestricted	103,459	63,690
Cash and investments - restricted	7,901	8,066
Interest receivable - unrestricted	1,325	1,146
Customer accounts receivable, net	27,813	35,875
Materials and supplies	14,102	16,261
Prepayments	2,959	2,169
Derivative financial instruments maturing within one year	164	-
Other current assets, net	<u>12,134</u>	<u>8,453</u>
Total Current Assets	<u>169,857</u>	<u>135,660</u>
 Total Assets	 <u>1,256,605</u>	 <u>1,145,692</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred cash flow hedges - unrealized loss on derivatives	19,493	24,981
Unamortized loss on refunding	9,178	11,374
Deferred outflows related to OPEB	18,567	-
Deferred outflows related to pension	<u>17,391</u>	<u>27,012</u>
Total Deferred Outflows of Resources	<u>64,629</u>	<u>63,367</u>
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	 <u>\$ 1,321,234</u>	 <u>\$ 1,209,059</u>



<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<i>(Dollars in Thousands)</i>	
	<u>2018</u>	<u>2017</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	\$ 576,865	\$ 616,180
Unamortized premium	27,113	33,708
Unamortized debt discount	(1,465)	(1,566)
Net pension liability	80,267	95,974
Net OPEB liability	127,472	-
Other liabilities	10,114	11,387
Derivative financial instruments	19,657	23,933
Equity interest in M-S-R	31,196	41,033
Total Noncurrent Liabilities	<u>871,219</u>	<u>820,649</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and other accruals	28,022	31,995
Current liabilities payable from restricted assets		
Current portion of long-term debt	39,315	38,155
Interest payable	10,429	11,140
Derivative financial instruments maturing within one year	-	1,048
Total Current Liabilities	<u>77,766</u>	<u>82,338</u>
Total Liabilities	<u>948,985</u>	<u>902,987</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to OPEB	3,042	-
Deferred inflows related to pension	7,398	-
Unearned revenue	41,948	43,101
Total Deferred Inflows of Resources	<u>52,388</u>	<u>43,101</u>
<b>NET POSITION</b>		
Net investment in capital assets	143,940	110,441
Unrestricted	175,921	152,530
Total Net Position	<u>319,861</u>	<u>262,971</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u>\$ 1,321,234</u>	<u>\$ 1,209,059</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, 2018 and 2017

	<i>(Dollars in Thousands)</i>	
	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Residential, commercial and industrial electric	\$ 347,531	\$ 362,203
Wholesale electric	13,723	10,754
Domestic water	21,764	20,963
Irrigation water	5,352	5,307
Equity in net income of public power agencies	13,700	(22,724)
Other operating income, net	10,258	7,889
Total Operating Revenues	<u>412,328</u>	<u>384,392</u>
<b>OPERATING EXPENSES</b>		
Purchased power	154,389	158,287
Power generation	34,502	39,515
Electric resources	11,408	10,403
Electric transmission and distribution	21,963	19,894
Irrigation operations	10,702	10,701
Domestic water operations	11,083	9,778
Customer account service	11,592	12,180
Administrative and general	40,407	40,124
Depreciation and amortization	41,847	39,561
Total Operating Expenses	<u>337,893</u>	<u>340,443</u>
<b>OPERATING INCOME</b>	<u>74,435</u>	<u>43,949</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	4,707	3,516
Interest expense	(32,567)	(36,737)
Capitalized interest	-	497
Amortization of debt discount	(101)	(124)
Amortization of premium	6,595	7,401
Amortization of loss on refunding	(2,196)	(6,692)
Regulatory amounts collected in rates	(516)	(570)
Other nonoperating income, net	4,504	5,294
Total Nonoperating Expenses	<u>(19,574)</u>	<u>(27,415)</u>
Change in Net Position Before Contributions	54,861	16,534
<b>CAPITAL CONTRIBUTIONS</b>	<u>2,029</u>	<u>1,735</u>
<b>CHANGE IN NET POSITION</b>	56,890	18,269
NET POSITION - Beginning of Year	<u>262,971</u>	<u>244,702</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 319,861</u>	<u>\$ 262,971</u>

See accompanying notes to financial statements.

# MODESTO IRRIGATION DISTRICT

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2018 and 2017

	<i>(Dollars in Thousands)</i>	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 404,932	\$ 408,436
Receipts from public power agencies	1,650	3,306
Payments to suppliers for goods and services	(251,760)	(259,232)
Payments to employees for services	(46,678)	(45,461)
Net Cash Flows Provided by Operating Activities	108,144	107,049
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Payments to escrow for refunding	-	(54,351)
Repayment of long-term debt	(38,155)	(36,150)
Construction expenditures	(33,194)	(36,193)
Interest paid	(33,278)	(38,097)
Contributions received for construction	1,504	1,399
Net Cash Flows Used in Capital Financing Activities	(103,123)	(163,392)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(49,445)	(67,505)
Investments sold and matured	46,712	58,803
Interest received	4,790	4,250
Net Cash Flows Provided by (Used in) Investing Activities	2,057	(4,452)
<b>Net Change in Cash and Cash Equivalents</b>	7,078	(60,795)
CASH AND CASH EQUIVALENTS, Beginning of Year	62,355	123,150
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 69,433	\$ 62,355
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Noncash contributions by developers	\$ 524	\$ 336
Capitalized interest	\$ -	\$ 497
Amortization	\$ 3,782	\$ 15
Change in arbitrage liability	\$ 107	\$ (6)
Unrealized gain (loss) on investments	\$ (369)	\$ (918)

See accompanying notes to financial statements.

	<i>(Dollars in Thousands)</i>	
	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>		
<b>FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 74,435	\$ 43,949
Adjustments to reconcile operating income to net cash flows provided by operating activities		
Other non-operating income	4,504	5,294
Depreciation and amortization	41,847	39,561
Undistributed income from public power agencies	(13,700)	22,724
Distributions from public power agencies	1,649	3,306
Change in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Customer accounts receivable, net	8,062	(1,110)
Wholesale power receivables	(747)	-
Other current assets, net	(4,362)	(5,094)
Materials and supplies	2,159	(342)
Prepayments	(790)	(570)
Accounts payable and other accruals	(3,395)	(3,954)
Pension related deferrals and liabilities	1,312	3,049
OPEB related deferrals and liabilities	(1,677)	-
Unearned revenue and other liabilities	(1,153)	236
	<u>108,144</u>	<u>107,049</u>
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 108,144</b>	<b>\$ 107,049</b>

<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
<b>TO BALANCE SHEET ACCOUNTS</b>		
Cash and investments - unrestricted	\$ 103,459	\$ 63,690
Cash and investments - restricted	7,901	8,066
Investments - unrestricted	94,538	124,844
Cash and investments - restricted	69,705	69,212
Capital improvement fund	6,864	7,213
Total Cash and Investments	<u>282,467</u>	<u>273,025</u>
Less: Noncash equivalents	<u>(213,034)</u>	<u>(210,670)</u>
<b>CASH AND CASH EQUIVALENTS</b>	<b>\$ 69,433</b>	<b>\$ 62,355</b>

See accompanying notes to financial statements.

# MODESTO IRRIGATION DISTRICT

## STATEMENTS OF FIDUCIARY NET POSITION As of December 31, 2018 and 2017

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	<i>(Dollars in Thousands)</i>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CASH AND CASH EQUIVALENTS</b>	\$ 4,428	\$ 11,745
<b>RECEIVABLES</b>		
Accrued interest	4	309
Other receivable	-	593
Dividends	35	33
<b>INVESTMENTS AT FAIR VALUE</b>		
Fixed income securities	-	35,371
Publicly traded stocks	25,482	38,900
US agency securities	-	4,233
Stable value	13,867	15,040
Mutual funds	375,333	338,582
Hedge funds	-	1,271
Total Assets	<u>419,149</u>	<u>446,077</u>
<b>LESS: ACCRUED LIABILITIES</b>	<u>997</u>	<u>914</u>
<b>NET POSITION HELD IN TRUST FOR RETIREE BENEFITS</b>	<u>\$ 418,152</u>	<u>\$ 445,163</u>

See accompanying notes to financial statements.

# MODESTO IRRIGATION DISTRICT

## STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION As of December 31, 2018 and 2017

	<i>(Dollars in Thousands)</i>	
	<u>2018</u>	<u>2017</u>
<b>ADDITIONS</b>		
Additions to (reductions from) net position attributed to:		
Investment income (loss):		
Net appreciation (depreciation) of investments	\$ (30,877)	\$ 51,111
Dividend income	8,661	7,950
Interest income	669	1,375
Investment expenses	<u>(1,209)</u>	<u>(1,051)</u>
Net investment income (loss)	(22,756)	59,385
Contributions		
Employee contributions	2,871	2,707
Employer contributions	25,026	24,222
Other contributions	<u>31</u>	<u>-</u>
Total Contributions	<u>27,928</u>	<u>26,929</u>
Total Additions (Reductions)	<u>5,172</u>	<u>86,314</u>
<b>DEDUCTIONS</b>		
Deductions from net position attributed to:		
Distributions to plan members and beneficiaries	24,360	20,627
Medical premiums paid	7,469	7,049
Other benefits expense	51	-
Administrative expenses	268	250
Consultant and professional services expenses	<u>35</u>	<u>35</u>
Total Deductions	<u>32,183</u>	<u>27,961</u>
<b>Net Increase (Decrease) in Net Position Held in Trust for Retiree Benefits</b>	(27,011)	58,353
<b>NET POSITION HELD IN TRUST FOR RETIREE BENEFITS</b>		
Beginning of year	<u>445,163</u>	<u>386,810</u>
<b>END OF YEAR</b>	<u>\$ 418,152</u>	<u>\$ 445,163</u>

See accompanying notes to financial statements.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
(Dollars in Thousands)

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

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

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

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

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

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

### ***REPORTING ENTITY***

As required by accounting principles generally accepted in the United States of America, these financial statements present the District, its component unit, the Modesto Irrigation District Financing Authority (the “Authority”), and the following 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 postemployment 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, 2018 and 2017  
(Dollars in Thousands)

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

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

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. The District's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes requirements for accounting, financial reporting and disclosures for governments that have defined benefit and defined contribution other postemployment benefit plans. This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District adopted this statement effective January 1, 2018. The District elected to follow accounting for regulated operations and record the unfunded net OPEB liability as a regulatory cost for future recovery.

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 financial 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, 2018 and 2017  
(Dollars in Thousands)

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

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### ***ALLOWANCE FOR DOUBTFUL ACCOUNTS***

The District recognizes an estimate of uncollectible accounts for its customer accounts receivable related to electric service based upon its historical experience with collections. The District has an allowance for doubtful accounts for its electric retail customers of \$1,199 and \$622 as of December 31, 2018 and 2017, 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 \$1,113 and \$265 at December 31, 2018 and 2017, 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, 2018 and 2017.

### ***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, 2018 and 2017  
(Dollars in Thousands)

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

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### ***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, the original unfunded net pension liability under GASB Statement No. 68, and the original net OPEB liability under GASB Statement No. 75.

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

The balance represents miscellaneous receivables and deposits. \$1,567 and \$1,852 of the 2018 and 2017 balances, respectively, are receivables from the City of Modesto for a domestic water pipeline project. Approximately \$1,275 and \$1,569 of the 2018 and 2017 balances, respectively, are not expected to be collected within one year. The balance of other long-term assets also includes the net OPEB asset under GASB Statement No. 45 in the prior year, 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 or the estimated acquisition value at the time of contribution to the utility. 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, 2018 and 2017  
(Dollars in Thousands)

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

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### ***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, 2018 and 2017, the District recorded accrued vacation time of \$3,326 and \$3,330, 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 \$8,258 and \$9,510 at December 31, 2018 and 2017, 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, 2018 and 2017 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.

### ***NET OTHER POSTEMPLOYMENT BENEFIT (OPEB) LIABILITY***

A net OPEB liability is recorded in accordance with GASB Statement No. 75. The net OPEB liability is the difference between the actuarial total OPEB 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, 2018 and 2017  
(Dollars in Thousands)

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

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### ***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, 2018 and 2017  
(Dollars in Thousands)

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

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### ***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, 2018 and 2017, unbilled revenues of \$14,217 and \$15,032, 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, 2018 and 2017  
(Dollars in Thousands)

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

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

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*; Statement No. 84, *Fiduciary Activities*; Statement No. 87, *Leases*; Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*; Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; and Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. When they become effective, application of these standards may restate portions of these financial statements.

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## **NOTE 3 – CASH AND INVESTMENTS**

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The District's investment policies are governed by the California Government Codes and its bond Indenture, which restricts the District's investment securities to obligations which are unconditionally guaranteed by the United States (US) 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 2018 and 2017.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
(Dollars in Thousands)

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

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The Plan's 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  
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### 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, 2018 and 2017:

Investment Type	December 31, 2018			Total
	Level 1	Level 2	Level 3	
US Government Agencies	\$ -	\$ 76,376	\$ -	\$ 76,376
US Treasury Notes	78,110	-	-	78,110
Money Market Funds	12,058	-	-	12,058
Corporate Medium Term Notes	-	27,575	-	27,575
Municipal Bonds	-	3,993	-	3,993
Commercial Paper	-	7,089	-	7,089
Derivative Financial Instruments	335	(19,828)	-	(19,493)
<b>Total</b>	<b>\$ 90,503</b>	<b>\$ 95,205</b>	<b>\$ -</b>	<b>\$ 185,708</b>

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)
<b>Total</b>	<b>\$ 69,572</b>	<b>\$ 108,006</b>	<b>\$ -</b>	<b>\$ 177,578</b>

#### ***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, 2018 and 2017, 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  
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## 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, 2018 and 2017, 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	2018	2017
US Agencies Implicitly Guaranteed	\$ 76,376	\$ 94,728
Corporate Medium Term Notes	27,575	30,226
Municipal Bonds	3,993	4,014
Commercial Paper	7,089	2,992
US Treasury	78,110	58,819
Totals	\$ 193,143	\$ 190,779

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, 2018 and 2017, the District's investments were rated as follows:

Investment Type	Standard & Poors	
	2018	2017
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  
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## NOTE 3 – CASH AND INVESTMENTS (cont.)

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

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

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

At December 31, 2018 and 2017, the District's investment portfolio was concentrated as follows:

Investment Type	Percentage of Portfolio	
	2018	2017
Fannie Mae	14%	19%
Freddie Mac	11%	14%

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, 2018, 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 Government Agencies	\$ 76,376	\$ 31,681	\$ 44,695	\$ -
Corporate Medium Term Notes	27,575	3,002	24,573	-
LAIF	45,955	45,955	-	-
Money Market Fund	12,058	12,058	-	-
Municipal Bonds	3,993	3,993	-	-
Commercial paper	7,089	7,089	-	-
US Treasury Notes	78,110	-	78,110	-
Totals	\$ 251,156	\$ 103,778	\$ 147,378	\$ -

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
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## NOTE 3 – CASH AND INVESTMENTS (cont.)

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

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

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 Government 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 Notes	58,819	-	58,819	-
<b>Totals</b>	<b>\$ 223,679</b>	<b>\$ 45,737</b>	<b>\$ 177,942</b>	<b>\$ -</b>

Though the District has restrictions as to the maturities of some of the investments, it does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increases in interest rates.

#### ***FIDUCIARY FUND INVESTMENTS***

The following disclosures relate to the District's Fiduciary Funds.

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, 2018 and 2017 (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 Plan's assets at fair value as of December 31, 2018 and 2017:

Investment Type	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 3,993	\$ -	\$ -	\$ 3,993
Publicly Traded Stocks	20,900	4,582	-	25,482
Mutual Funds	<u>275,581</u>	<u>70,088</u>	<u>29,664</u>	<u>375,333</u>
Total	<u>\$ 300,474</u>	<u>\$ 74,670</u>	<u>\$ 29,664</u>	<u>\$ 404,808</u>
Investments measured at the net asset value				
Stable value				<u>\$ 13,867</u>
Total Investments				<u>\$ 418,675</u>

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
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### NOTE 3 – CASH AND INVESTMENTS (cont.)

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

Investment Type	December 31, 2017			Total
	Level 1	Level 2	Level 3	
Money Market Funds	\$ 2,797	\$ -	\$ -	\$ 2,797
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	247,229	64,829	26,524	338,582
<b>Total</b>	<b>\$ 289,698</b>	<b>\$ 103,382</b>	<b>\$ 26,803</b>	<b>\$ 419,883</b>
Investments measured at the net asset value				
Stable value				\$ 15,040
Hedge funds				1,272
<b>Total Investments</b>				<b>\$ 436,195</b>

*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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
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## 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, 2018 and 2017, 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	2018	2017
US Agency Securities	\$ -	\$ 4,233
Foreign Government Obligation	-	610
US Treasuries	-	7,255
Corporate Bonds	-	17,575
Other Fixed Income Securities	-	9,931
Publicly Traded Stocks	25,482	38,900
 Totals	\$ 25,482	\$ 78,504

The Retiree Medical Benefit Plan investments were not exposed to custodial credit risk in 2018 and 2017.

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

#### ***Credit Risk***

As of December 31, 2018 and 2017, the Plan's investments were rated as follows:

Investment Type	Standard & Poors	
	2018	2017
Corporate Bonds	-	A – BBB+, NR
Other Fixed Income Securities	-	A – BBB+, NR
Money Market Funds	NR	NR
Hedge Funds	-	NR
US Agency Securities	-	AA+
Foreign Government Obligations	-	AA+

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
(Dollars in Thousands)

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

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

#### ***Credit Risk***

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

MorningStar Rating	2018	2017
2	\$ 34,479	\$ 1,200
3	54,761	53,144
4	93,116	79,858
5	16,571	19,659
Not Rated	76	65

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, 2018 and 2017.

# MODESTO IRRIGATION DISTRICT

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

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

***Interest Rate Risk***

As of December 31, 2018, the Plan's investments exposed to interest rate risk were as follows:

Investment Type	Fair Value	Investment Maturities in Years		
		Less than 1 Year	1 – 5 Years	Greater than 5 Years
Money Market Funds	\$ 3,992	\$ 3,992	\$ -	\$ -
Stable Value Fund	13,867	13,867	-	-
Mutual Funds	199,003	199,003	-	-
<b>Totals</b>	<b>\$ 216,862</b>	<b>\$ 216,862</b>	<b>\$ -</b>	<b>\$ -</b>

As of December 31, 2017, the Plan's investments exposed to interest rate risk were as follows:

Investment Type	Fair Value	Investment Maturities in Years		
		Less than 1 Year	1 – 5 Years	Greater than 5 Years
Money Market Funds	\$ 2,797	\$ 2,797	\$ -	\$ -
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	153,926	153,926	-	-
<b>Totals</b>	<b>\$ 220,080</b>	<b>\$ 180,907</b>	<b>\$ 10,499</b>	<b>\$ 28,674</b>

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



## MODESTO IRRIGATION DISTRICT

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

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

##### ***Foreign Currency Risk***

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

The Basic Retirement Plan's exposure to foreign currency risk in US dollars as of December 31, 2018 and 2017 is summarized in the following table.

Foreign Currency	2018	2017
German (Euro)	\$ -	\$ 60
New Zealand	-	712
Total	\$ -	\$ 772

In addition, the Plan investments in international equity open-ended mutual funds stated at fair value as of December 31, 2018 and 2017 were:

Mutual Fund Name	2018	2017
Oppenheimer International Growth Fund	\$ 27,789	\$ 30,350
PIMCO Real Return Fund Class	8,312	7,455
Prudential Core Bond Fund	42,731	44,899
Ivy International Core Equity Fund	210	146
Blackrock Core Bon Portfolio Class K	34,292	-
Met West Total Return Bond Fund Class I	17,242	-
Brandes International Equity Fund	31,859	28,883
Principal Midcap Institution	258	-
Totals	\$ 162,693	\$ 111,733

The Plan has restrictions relating to maximum amounts invested in certain non-US 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  
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## **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	
	2018	2017
Restricted Accounts		
Project fund	\$ 28,794	\$ 28,333
Reserve fund	39,996	39,538
Redemption fund	7,901	8,508
Domestic water and reserve contingency fund	915	899
Total Restricted Accounts	\$ 77,606	\$ 77,278

### ***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.

### ***REMEDIATION 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 as of December 31, 2018 and 2017.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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### **NOTE 5 – CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for 2018 follows:

	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
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	903,102	20,929	436	923,595
Domestic water plant	215,964	1,042	-	217,006
Irrigation system	53,272	1,873	381	54,764
General and administrative facilities	76,252	3,558	445	79,365
Total Capital Assets Being Depreciated/Amortized	1,293,857	27,402	1,262	1,319,997
Total Capital Assets	1,334,226	27,402	1,262	1,360,366
Less: Accumulated depreciation/amortization	(646,895)	(41,847)	(1,231)	(687,511)
Construction in progress	30,342	31,481	26,877	34,946
Net Capital Assets	\$ 717,673	\$ 17,036	\$ 26,908	\$ 707,801

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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(Dollars in Thousands)

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

	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	<u>40,369</u>	<u>-</u>	<u>-</u>	<u>40,369</u>
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	<u>1,254,073</u>	<u>51,767</u>	<u>11,983</u>	<u>1,293,857</u>
Total Capital Assets	<u>1,294,442</u>	<u>51,767</u>	<u>11,983</u>	<u>1,334,226</u>
Less: Accumulated depreciation/amortization	<u>(618,587)</u>	<u>(39,561)</u>	<u>(11,253)</u>	<u>(646,895)</u>
Construction in progress	<u>41,343</u>	<u>40,691</u>	<u>51,692</u>	<u>30,342</u>
Net Capital Assets	<u>\$ 717,198</u>	<u>\$ 52,897</u>	<u>\$ 52,422</u>	<u>\$ 717,673</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, 2018 and 2017:

	2018	2017
M-S-R Public Power Agency	<u>\$ (31,196)</u>	<u>\$ (41,033)</u>
Transmission Agency of Northern California (TANC)	<u>\$ 5,348</u>	<u>\$ 3,136</u>

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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### **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. 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 2018 and 2017, the District incurred purchased power costs of \$31,188 and \$53,817, respectively, in connection with these Agency resources. At December 31, 2018 and 2017, the District had a payable of \$2,075 and \$5,269, respectively, to the Agency for its proportionate share of project related expenditures.

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

	2018	2017
Total assets	\$ 82,188	\$ 93,670
Total deferred outflows of resources	2,539	4,084
Total Assets and Deferred Outflows	\$ 84,727	\$ 97,754
Total liabilities	\$ 147,115	\$ 179,819
Total net position	(62,388)	(82,065)
Total Liabilities and Net Position	\$ 84,727	\$ 97,754
Changes in Net Position During the Year	\$ 19,677	\$ (51,631)

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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(Dollars in Thousands)

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

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

The long term debt of the Agency, which totals \$98,850 and \$136,055 at December 31, 2018 and 2017, 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 \$4,259 and \$16,191 for December 31, 2018 and 2017, 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 2018 and 2017, the District incurred purchased gas costs of \$4,966 and \$4,698, respectively, in connection with the Authority. At December 31, 2018 and 2017, the District had a payable of \$1,052 and \$439, respectively, for purchased gas and project related expenses.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
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## **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:

	2018	2017
Total Assets	\$ 904,901	\$ 904,787
Total liabilities	\$ 904,901	\$ 904,787
Total net position	-	-
 Total Liabilities and Net Position	 \$ 904,901	 \$ 904,787
 Changes in Net Position During the Year	 \$ -	 \$ -

The long term debt of the Authority totaled \$901,620 at December 31, 2018 and 2017. The Authority did not make any principal payments in 2018 or 2017. The District's portion of the Authority's interest payments during the year were \$13,211 in 2018 and 2017.

### ***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 2018 and 2017, the District incurred transmission costs of \$11,717 and \$12,062, 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, 2018 and 2017, the District has a receivable from TANC in the amount of \$17,319 and \$15,597, 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 \$2,074 and \$2,500 in revenues from transmission sales in the 2018 and 2017, respectively.

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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### **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:

	2018 (unaudited)	2017 (unaudited)
Total Assets and Deferred Outflows of Resources	\$ 353,175	\$ 344,594
Total liabilities	\$ 329,023	\$ 330,927
Total net position	24,152	13,667
Total Liabilities and Net Position	\$ 353,175	\$ 344,594
Changes in Net Position for 6 Months Ended	\$ 7	\$ (7,143)

The long term debt of TANC (unaudited), which totals \$229,607 and \$240,197 at December 31, 2018 and 2017, 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 \$4,425 and \$4,444 for December 31, 2018 and 2017, 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:

	2018	2017
Total Assets	\$ 3,994	\$ 2,092
Total liabilities	\$ 3,994	\$ 2,092
Total net position	-	-
Total Liabilities and Net Position	\$ 3,994	\$ 2,092
Changes in Net Position During the Year	\$ -	\$ -



# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
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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, 2018 and 2017 and for the years then ended is as follows:

	2018	2017
<b>Assets</b>		
Current assets	\$ 13,170	\$ 12,944
Other noncurrent assets	45,963	45,395
Debt service installment receivable, less current portion	254,455	264,712
Total Assets	313,588	323,051
<b>Deferred Outflows of Resources</b>	21,346	25,833
Total Assets and Deferred Outflows of Resources	\$ 334,934	\$ 348,884
<b>Liabilities and Net Position</b>		
Current liabilities	\$ 12,858	\$ 12,630
Derivative financial instruments	19,828	23,953
Long-term debt, net	302,107	312,053
Other noncurrent liabilities	141	248
Net position	-	-
Total Liabilities and Net Position	\$ 334,934	\$ 348,884
	2018	2017
<b>Revenues and Expenses</b>		
Revenues:		
Debt service contributions	\$ 12,400	\$ 12,807
Interest income	1,002	948
Other non-operating income	1,247	1,259
Total Revenues	14,649	15,014
Interest expense and amortization	(14,649)	(15,014)
<b>Change in Net Position</b>	-	-
NET POSITION, Beginning of Year	-	-
<b>NET POSITION, END OF YEAR</b>	\$ -	\$ -

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
(Dollars in Thousands)

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

#### *MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY (cont.)*

	2018	2017
<b>Cash Flows</b>		
Net cash used in noncapital financing activities	\$ (458)	\$ (43,178)
Net cash provided by (used in) investing activities	862	10,984
<b>Net Change in Cash and Cash Equivalents</b>	404	(32,194)
CASH AND CASH EQUIVALENTS – Beginning of the Year	5,058	37,252
<b>CASH AND CASH EQUIVALENTS – END OF THE YEAR</b>	\$ 5,462	\$ 5,058

### **NOTE 7 – LONG-TERM DEBT**

#### *LONG-TERM DEBT*

The following bonds have been issued:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/18
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	59,070
6/23/10	2010A Taxable Electric System Revenue Bonds	10/1/40	4.78 – 7.20	60,325	53,235
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	69,670
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	76,415
8/14/13	2013G Domestic Water Refunding Revenue Bonds	9/11/22	2.00 – 5.00	43,270	21,575
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	27,815
10/1/16	2016 Electric System Refunding Revenue Bond	10/1/34	2.00 – 5.00	95,240	75,140

# MODESTO IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017 (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, 2018 and 2017, the District has recorded a liability of \$141 and \$248, 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>
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	38,525	22,143	(1,065)	59,603
2024 – 2028	157,715	85,194	(5,327)	237,582
2029 – 2033	135,370	48,118	(5,299)	178,189
2034 – 2038	92,105	20,033	(3,363)	108,775
2039 – 2040	<u>23,140</u>	<u>1,820</u>	<u>(383)</u>	<u>24,577</u>
Total Requirements	<u>\$ 616,180</u>	<u>\$ 287,055</u>	<u>\$ (19,958)</u>	<u>\$ 883,277</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 2018 and 2017 due to budget sequestration by the federal government. In 2018 and 2017, the District recognized \$1,247 and \$1,259, 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 6.2% through the end of the federal fiscal year (September 30, 2019) or convening US Congressional action, at which time the sequestration rate is subject to change.

The District had outstanding debt obligations totaling \$77,455 and \$146,325 on December 31, 2018 and 2017, 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, 2018 and 2017  
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### NOTE 7 – LONG-TERM DEBT (cont.)

#### **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 US 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.

#### **LONG-TERM OBLIGATION SUMMARY**

Long-term obligation activity for the year ended December 31, 2018 is as follows:

	1/1/18 Balance	Additions	Reductions	12/31/18 Balance	Due Within One Year
Domestic water revenue bonds	\$ 119,525	\$ -	\$ 4,760	\$ 114,765	\$ 5,005
Certificate of participation Revenue bonds	62,200	-	3,130	59,070	3,285
Unamortized debt discount	472,610	-	30,265	442,345	31,025
Unamortized premium	(1,566)	-	(101)	(1,465)	-
Other liabilities	33,708	-	6,595	27,113	-
Derivative financial instruments	11,387	638	1,911	10,114	-
Equity interest in M-S-R	24,981	-	5,488	19,493	(164)
	41,033	1,650	11,487	31,196	-
<b>Totals</b>	<b>\$ 763,878</b>	<b>\$ 2,288</b>	<b>\$ 63,535</b>	<b>\$ 702,631</b>	<b>\$ 39,151</b>

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 Revenue bonds	116,545	-	54,345	62,200	3,130
Unamortized debt discount	501,240	-	28,630	472,610	30,265
Unamortized premium	(2,577)	-	(1,011)	(1,566)	-
Other liabilities	41,109	-	7,401	33,708	-
Derivative financial instruments	11,839	493	945	11,387	-
Equity interest in M-S-R	26,727	-	1,746	24,981	1,048
	15,217	25,816	-	41,033	-
<b>Totals</b>	<b>\$ 834,160</b>	<b>\$ 26,309</b>	<b>\$ 96,591</b>	<b>\$ 763,878</b>	<b>\$ 39,203</b>

# MODESTO IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017 (Dollars in Thousands)

### NOTE 7 – LONG-TERM DEBT (cont.)

#### *LONG-TERM OBLIGATION SUMMARY* (cont.)

In addition to the liabilities above, information on the net pension liability and the net OPEB liability is provided in Note 9.

### 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, 2018 (amounts in thousands; gains shown as positive amounts, losses as negative).

	2018 Change in Fair Value		Fair Value, End of 2018		Notional (Thousands)
	Classification	Amount	Classification	Amount	
<b>Effective Cash Flow Hedges</b>					
Interest Rate Derivatives:					
Pay-fixed swaps, interest rate	Deferred Outflow	\$ 4,126	Derivative	\$ (19,828)	\$ 93,190
Energy Derivatives:					
Pay-fixed swaps, natural gas	Deferred Outflow	1,328	Derivative	342	2,041 mmBtu
Options Contracts	Deferred Outflow	34	Derivative	(7)	180 mmBtu

# MODESTO IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017 (Dollars in Thousands)

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

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

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of December 31, 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	
<b>Effective Cash Flow Hedges</b>					
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

#### OBJECTIVE AND TERMS OF HEDGING DERIVATIVE INSTRUMENTS

The objectives and terms of the District's hedging derivative instruments that were outstanding at December 31, 2018 and 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	180 mmBtu	Dec-18	Dec-19	Collar with \$2.60/mmBtu floor, \$3.35 cap; Settle on NYMEX	n/a
Pay-fixed swaps, natural gas	Hedge cash flows on PG&E citygate gas purchases	2,041 mmBtu	Oct-16	Dec-21	Pay \$3.00-3.32/mmBtu; Receive NGI PG&E citygate price	Between A To BBB

## MODESTO IRRIGATION DISTRICT

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

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

Objectives and terms of the District's hedging derivative instruments that were outstanding at December 31, 2017 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	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

#### **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, 2018 and 2017, 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, 2018 and 2017, the District was not in-the-money with certain of its counterparties; the District's only net gains were on exchange-traded instruments.

# MODESTO IRRIGATION DISTRICT

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

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

**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 2019.

**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.

### *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, 2018 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, 2018, all of the District’s variable-rate debt is effectively hedged.

Year Ending December 31,	Principal	Interest	Net Payment on Derivatives	Total
2019	\$ -	\$ 2,328	\$ 1,795	\$ 4,123
2020	-	2,328	1,795	4,123
2021	-	2,328	1,795	4,123
2022	-	2,328	1,795	4,123
2023	4,275	2,302	1,774	8,351
2024 – 2028	24,435	9,817	7,553	41,805
2029 – 2033	30,605	6,437	4,945	41,987
2034 – 2037	33,875	2,101	1,614	37,590
Totals	<u>\$ 93,190</u>	<u>\$ 29,969</u>	<u>\$ 23,066</u>	<u>\$ 146,225</u>



# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
(Dollars in Thousands)

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## **NOTE 9 – EMPLOYEE BENEFIT PLANS**

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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.

**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 US 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.

# MODESTO IRRIGATION DISTRICT

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

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

**Employees Covered by Benefit Terms.** At the December 31, 2017 and 2016 valuation dates, the following employees were covered by the benefit terms:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	440	423
Inactive employees entitled to but not yet receiving benefits	51	50
Active employees	444	434
Totals	935	907

**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 \$12,825 and \$12,833, which were contributed in 2018 and 2017, 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, 2017 and 2016 for the District's December 31, 2018 and 2017 financial statements, respectively, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of January 1, 2018 and January 1, 2017, respectively.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
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## NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

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

**Actuarial Assumptions.** The total pension liability in the January 1, 2018 and 2017 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.
- > 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  
As of and for the Years Ended December 31, 2018 and 2017  
(Dollars in Thousands)

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

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

#### *Changes in Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
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)	155
Net Changes	15,728	13,201	2,527
Balances at December 31, 2017	337,887	241,913	95,974
Changes for the Year			
Service cost	6,915	-	6,915
Interest on total pension liability	24,722	-	24,722
Difference between expected and actual experience	3,965	-	3,965
Employer contributions	-	13,155	(13,155)
Employee contributions	-	477	(477)
Net investment income	-	37,865	(37,865)
Benefit payments, including employee refunds	(17,058)	(17,058)	-
Administrative expense	-	(188)	188
Net Changes	18,544	34,251	(15,707)
Balances as of December 31, 2018	\$ 356,431	\$ 276,164	\$ 80,267

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
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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 12/31/2018	\$ 123,495	\$ 80,267	\$ 43,890
Net pension liability as of 12/31/2017	137,287	95,974	61,198

**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, 2018 and 2017, the employer recognized pension expense of \$14,194 and \$16,203, respectively. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>December 31, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 7,398
Differences between expected and actual experience	4,508	-
Contributions subsequent to the measurement date *	<u>12,883</u>	<u>-</u>
Totals	<u>\$ 17,391</u>	<u>\$ 7,398</u>
	<u>December 31, 2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 12,313	\$ -
Differences between expected and actual experience	1,544	-
Contributions subsequent to the measurement date *	<u>13,155</u>	<u>-</u>
Totals	<u>\$ 27,012</u>	<u>\$ -</u>

\* 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, 2018 and 2017  
(Dollars in Thousands)

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

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### ***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 December 31	Expense
2019	\$ 1,265
2020	901
2021	(2,686)
2022	(2,997)
2023	627

***Payable to the Pension Plan.*** At December 31, 2018 and 2017, the employer did not have a payable for any outstanding amount of contributions to the pension plan required.

The 2018 and 2017 required contributions were determined as part of the January 1, 2018 and January 1, 2017 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 \$2,273 and \$2,205 for 2018 and 2017, respectively.

### ***HEALTH CARE BENEFITS***

The District implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. The cumulative effect of the change in net position due to the change in accounting standard, or the initial unfunded liability is shown as a regulatory cost for future recovery on the balance sheet. The District plans to recover these costs in a future rate study. The prior year balances for deferred outflows of resources, deferred inflows of resources, and the net OPEB liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by the plan. For this reason, prior year OPEB footnote disclosures are included under GASB Statement No. 45.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
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## NOTE 9 – EMPLOYEE BENEFIT PLANS (cont.)

### *GENERAL INFORMATION ABOUT THE OPEB PLAN*

**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. 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.

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 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.** As of the January 1, 2017 actuarial valuation, 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	428
Total	783

**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.

**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, 2018, the District's average contribution rate was 4.51% of covered-employee payroll. Plan members are not required to contribute to the plan.

# MODESTO IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017 (Dollars in Thousands)

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

#### **NET OPEB LIABILITY**

The District's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017.

**Actuarial assumptions.** The total OPEB liability was determined by an actuarial valuation as of January 1, 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 Blue Collar Generational Mortality Table projected with 75% of Scale AA.

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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, 2018:

Asset Class	Target Allocation
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%



# MODESTO IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017 (Dollars in Thousands)

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

#### NET OPEB LIABILITY (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.

#### CHANGES IN THE NET OPEB LIABILITY

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 12/31/2017	\$ 165,752	\$ 43,240	\$ 122,512
Changes for the year:			
Service cost	4,479	-	4,479
Interest	6,263	-	6,263
Differences between expected and actual experience	-	-	-
Changes in assumptions	10,207	-	10,207
Contributions-employer	-	8,862	(8,862)
Contributions-employee	-	25	(25)
Net investment income	-	7,180	(7,180)
Benefit payments	(7,049)	(7,049)	-
Administrative expense	-	(78)	78
Net changes	13,900	8,940	4,960
Balances at 12/31/2018	\$ 179,652	\$ 52,180	\$ 127,472

**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

# MODESTO IRRIGATION DISTRICT

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

### CHANGES IN THE NET OPEB LIABILITY (cont.)

**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

### OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended December 31, 2018, the District recognized OPEB expense of \$8,167. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	8,697	-
Net difference between projected and actual earnings on OPEB plan investments	-	3,042
Contributions subsequent to the measurement date	9,870	-
<b>Total</b>	<b>\$ 18,567</b>	<b>\$ 3,042</b>

Deferred outflows resulting from contributions subsequent to the measurement date is recognized as a reduction in the net OPEB liability in the subsequent year. Remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b><u>Year Ended December 31:</u></b>	
2019	\$ 749
2020	749
2021	749
2022	749
2023	1,510
Thereafter	1,149

# MODESTO IRRIGATION DISTRICT

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

### **REQUIRED DISCLOSURES UNDER GASB STATEMENT NO. 45**

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

## MODESTO IRRIGATION DISTRICT

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

#### *REQUIRED DISCLOSURES UNDER GASB 45* (cont.)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and 2016 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)

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%

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

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

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

# MODESTO IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017 (Dollars in Thousands)

### **NOTE 10 – RETIREE MEDICAL PLAN**

#### ***HEALTH CARE BENEFITS***

The following disclosures relate to the Retiree Medical Plan fiduciary fund as required by GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Plan information related to December 31, 2017 is included in Note 9 with regard to the December 31, 2018 net OPEB liability, unless otherwise stated below.

**Plan membership.** At December 31, 2018, Retiree Medical Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	385
Inactive plan members entitled to but not yet receiving benefit payments	-
Active and disabled plan members	435
Total	820

#### ***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, 2018:

Asset Class	Target Allocation
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, 2018 and 2017, the annual money-weighted rate of return on investments, net of investment expense, was -5.43% and 16.0%, respectively. 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  
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## NOTE 10 – RETIREE MEDICAL PLAN (cont.)

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### *NET OPEB LIABILITY OF THE DISTRICT*

The components of the net OPEB liability of the District at December 31, 2018, were as follows:

Total OPEB liability	\$	148,946
Retiree Medical Plan fiduciary net position		<u>(51,676)</u>
District's net OPEB liability	\$	<u>97,270</u>
Retiree Medical Plan fiduciary net position as a percentage of the total OPEB liability		34.7%

**Actuarial assumptions.** The total OPEB liability was determined by an actuarial valuation as of January 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	January 1, 2019
Inflation	2.5 %
Salary increases	4.0 %
Investment rate of return	7.5 %
Healthcare cost trend rates	5.5% for 2019, 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 Blue Collar Generational Mortality Table projected with 75% of Scale AA.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012.

**Discount rate.** The discount rate used to measure the total OPEB liability was 4.62%. 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.

# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
(Dollars in Thousands)

## NOTE 10 – RETIREE MEDICAL PLAN (cont.)

### *NET OPEB LIABILITY OF THE DISTRICT* (cont.)

***Sensitivity of the net OPEB liability to changes in the discount rate.*** The following presents the net OPEB liability of the District for the December 31, 2018 measurement date, 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 (3.62%) or 1-percentage-point higher (5.62%) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Net OPEB liability	\$ 117,601	\$ 97,270	\$ 80,733

***Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.*** The following presents the net OPEB liability of the District for the December 31, 2018 measurement date, 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 (4.5 % decreasing to 3.5%) or 1-percentage-point higher (6.5% decreasing to 5.5%) than the current healthcare cost trend rates:

	1% Decrease (4.5% Decreasing to 3.5%)	Healthcare Cost Trend Rates (5.5% Decreasing to 4.5%)	1% Increase (6.5% Decreasing to 5.5%)
Net OPEB liability	\$ 79,373	\$ 97,270	\$ 119,446

## NOTE 11 – COMMITMENTS

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

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

2019	\$	88,873
2020		67,223
2021		66,020
2022		64,816
2023		65,139

## MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
(Dollars in Thousands)

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### NOTE 12 – CONTINGENCIES

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#### ***RATE SUBSIDY LITIGATION***

*Hobbs v. Modesto Irrigation District* is a class-action challenge to District power rates filed in March 2016. A further suit or an amendment to the existing suit is anticipated by the same plaintiff as to election rates the District adopted in December 2018. These challenges stem from Proposition 26, which California voters adopted on November 2, 2010. The lawsuit alleges the District uses funds collected from electric customers to subsidize its irrigation and water operations and that power rates therefore illegally tax electric customers under Propositions 26. The suit seeks refunds of alleged illegal taxes. No details of the challenge to 2018 rates are available, but the District anticipates the plaintiff will raise similar theories.

*Hobbs v. Modesto Irrigation District* had been stayed by the Stanislaus County Superior Court pending the Supreme Court decision in *Citizens for Fair REU Rates v. City of Redding*. That decision was issued in late 2018 and the case is now moving forward. A trial date has been set for June 20, 2019 and a further mediation to seek settlement of the case is set for May 1, 2019. If tried, the case will be tried to the bench rather than to a jury and evidence will be limited to the District's 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 \$28,588 for various capital and operating projects. As of December 31, 2018, approximately \$22,365 has been expended.

***Electric Purchase Contracts.*** The District has entered into numerous electric purchase contracts with amounts totaling approximately 2,493 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 \$27.65 to \$109.50 per MWh. These contracts expire periodically from January 2019 through December 2022. 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 \$2.72 to \$5.83 per million British Thermal Units (mmbtu). The amounts total to approximately 6.8 million mmbtu and the contracts expire periodically from January 2019 through December 2025.



# MODESTO IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017  
(Dollars in Thousands)

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## NOTE 13 – RISK MANAGEMENT

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Claims liability – beginning of year	\$ 462	\$ 508	\$ 560
Claims accrued	530	487	1,104
Claims paid/other	<u>(570)</u>	<u>(533)</u>	<u>(1,156)</u>
Claims Liability – End of Year	<u>\$ 422</u>	<u>\$ 462</u>	<u>\$ 508</u>

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## NOTE 14 – SUBSEQUENT EVENT

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On May 14, 2019, the board of directors for the Modesto Irrigation District Financing Authority, a component unit of the Modesto Irrigation District, authorized the issuance of the 2019A & B Revenue Bonds in the amount of \$48,370,000 and \$49,560,000, respectively. The purpose of the bonds is to finance the cost and construction of capital asset additions to the electric system of the District and refunding the District's outstanding 2009A Certificates of Deposit.

**REQUIRED SUPPLEMENTARY INFORMATION**

## MODESTO IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)  
For the Years Ended December 31, 2018 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)
10/1/17	\$ 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%

See independent auditors' report.

**MODESTO IRRIGATION DISTRICT**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 (Unaudited)  
 As of December 31, 2018  
 (Dollars in Thousands)

***Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios - GASB Statement No. 74 and 75***

	2018	2017
<b>Total OPEB Liability</b>		
Service cost	\$ 5,041	\$ 4,479
Interest	6,053	6,263
Differences between expected and actual experience	(599)	-
Changes of assumptions	(33,732)	10,207
Benefit payments	(7,469)	(7,049)
<b>Net Change in Total OPEB Liability</b>	(30,706)	13,900
<b>Total OPEB Liability - Beginning</b>	179,652	165,752
<b>Total OPEB Liability - Ending (a)</b>	<b>\$ 148,946</b>	<b>\$ 179,652</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 9,870	\$ 7,749
Contributions - employee	26	25
Net investment income	(2,856)	7,180
Benefit payments	(7,469)	(5,935)
Administrative expenses	(75)	(79)
<b>Net Change in Plan Fiduciary Net Position</b>	(504)	8,940
<b>Plan Fiduciary Net Position - Beginning</b>	52,180	43,240
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 51,676</b>	<b>\$ 52,180</b>
<b>Net OPEB Liability - Ending (a) - (b)</b>	<b>\$ 97,270</b>	<b>\$ 127,472</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	34.69%	29.05%
<b>Covered-employee payroll</b>	\$ 42,110	\$ 40,803
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	230.99%	312.41%
<b>Annual Money Weighted Rate of Return on OPEB Plan Investments</b>	-5.43%	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.

The District implemented GASB Statement No. 75 in fiscal year 2018. The District uses a one year lag in its measurement date to record its net OPEB liability in the District's financial statements.

See independent auditors' report.

**MODESTO IRRIGATION DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)  
As of December 31, 2018  
(Dollars in Thousands)

**Schedule of Employer's Contributions - GASB Statement No. 74 and 75**

	2018	2017
Actuarially determined contribution	\$ 2,426	\$ 1,646
Contributions in relation to the actuarially determined contribution	2,426	1,839
Contribution Deficiency (Excess)	\$ -	\$ (193)
 Covered-employee payroll	 \$ 42,110	 \$ 40,803
Contributions as a percentage of covered-employee payroll	5.76%	4.51%

**Notes to Schedule**

**Valuation date:**

Actuarially determined contribution rates are calculated as of:

Fiscal year 2018	10/15/2018
Fiscal year 2017	1/1/2017

**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	5.5 percent for 2019, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent in 2021 for 2018 6.5 percent initial in 2017, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent for 2017
Salary increases	4.0 percent
Investment rate of return	7.5 percent, net of OPEB plan investment expense, including inflation.
Single equivalent discount rate	2018 4.62% 2017 3.44%
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.

The District implemented GASB Statement No. 75 in fiscal year 2018. The District uses a one year lag in its measurement date to record its net OPEB liability in the District's financial statements.

See independent auditors' report.

**MODESTO IRRIGATION DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)  
As of December 31, 2018  
(Dollars in Thousands)

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

	2018	2017	2016	2015
<b>Total Pension Liability</b>				
Service cost	\$ 6,915	\$ 6,126	\$ 6,460	\$ 5,996
Interest	24,722	23,581	22,503	21,705
Difference between expected and actual experience	3,965	1,583	356	-
Benefit payments including employee refunds	<u>(17,058)</u>	<u>(15,562)</u>	<u>(14,508)</u>	<u>(13,448)</u>
<b>Net Change in Total Pension Liability</b>	<u>18,544</u>	<u>15,728</u>	<u>14,811</u>	<u>14,253</u>
<b>Total Pension Liability beginning</b>	<u>337,887</u>	<u>322,159</u>	<u>307,348</u>	<u>293,095</u>
<b>Total Pension Liability ending</b>	<u>\$ 356,431</u>	<u>\$ 337,887</u>	<u>\$ 322,159</u>	<u>\$ 307,348</u>
<b>Plan Fiduciary Net Position</b>				
Contributions-employer	\$ 13,155	\$ 11,854	\$ 12,120	\$ 13,221
Contributions-employee	477	739	465	72
Net Investment income	37,866	16,325	(237)	14,852
Benefit payments including employee refunds	<u>(17,058)</u>	<u>(15,562)</u>	<u>(14,508)</u>	<u>(13,448)</u>
Administrative expense	<u>(189)</u>	<u>(155)</u>	<u>(142)</u>	<u>(159)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<u>34,251</u>	<u>13,201</u>	<u>(2,302)</u>	<u>14,538</u>
<b>Plan Fiduciary Net Position beginning</b>	<u>241,913</u>	<u>228,712</u>	<u>231,014</u>	<u>216,476</u>
<b>Plan Fiduciary Net Position ending</b>	<u>\$ 276,164</u>	<u>\$ 241,913</u>	<u>\$ 228,712</u>	<u>\$ 231,014</u>
<b>Employer Net Pension Liability</b>	<u>\$ 80,267</u>	<u>\$ 95,974</u>	<u>\$ 93,447</u>	<u>\$ 76,334</u>
<b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b>	77.48%	71.60%	70.99%	75.16%
<b>Covered Employee Payroll</b>	\$ 41,274	\$ 39,112	\$ 38,211	\$ 35,448
<b>Employer's Net Pension Liability as a percentage of covered employee payroll</b>	194.47%	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, 2018  
(Dollars in Thousands)

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

	2018	2017	2016	2015
Actuarial determined contributions	\$ 12,825	\$ 12,833	\$ 11,781	\$ 12,057
Contributions in relation to the actuarially determined contribution	<u>12,883</u>	<u>13,155</u>	<u>11,854</u>	<u>12,120</u>
Contribution Deficiency (Excess)	<u>\$ (58)</u>	<u>\$ (322)</u>	<u>\$ (73)</u>	<u>\$ (63)</u>
Covered employee payroll	\$ 41,166	\$ 41,274	\$ 39,112	\$ 38,211
Contributions as a percentage of covered employee payroll	31%	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

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.

**SUPPLEMENTARY INFORMATION**



## MODESTO IRRIGATION DISTRICT

### COMBINING STATEMENTS OF FIDUCIARY NET POSITION As of December 31, 2018 and 2017

ASSETS	<i>(Dollars in Thousands)</i>							
	Basic Retirement Plan		Supplemental Retirement Plan		Retiree Medical Plan		Total Fiduciary Funds	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>CASH AND CASH EQUIVALENTS</b>	\$ 1,941	\$ 11,265	\$ 56	\$ 206	\$ 2,431	\$ 274	\$ 4,428	\$ 11,745
<b>RECEIVABLES</b>								
Accrued interest	4	309	-	-	-	-	4	309
Other receivable	-	593	-	-	-	-	-	593
Dividends	35	33	-	-	-	-	35	33
<b>INVESTMENTS AT FAIR VALUE</b>								
Fixed income securities	-	35,371	-	-	-	-	-	35,371
Publicly traded stocks	25,482	38,900	-	-	-	-	25,482	38,900
US Agency Securities	-	4,233	-	-	-	-	-	4,233
Stable value	-	-	13,867	15,040	-	-	13,867	15,040
Mutual funds	229,590	185,036	96,425	101,573	49,318	51,973	375,333	338,582
Hedge funds	-	1,271	-	-	-	-	-	1,271
Total Assets	<u>257,052</u>	<u>277,011</u>	<u>110,348</u>	<u>116,819</u>	<u>51,749</u>	<u>52,247</u>	<u>419,149</u>	<u>446,077</u>
<b>LESS: ACCRUED LIABILITIES</b>	<u>924</u>	<u>847</u>	<u>-</u>	<u>-</u>	<u>73</u>	<u>67</u>	<u>997</u>	<u>914</u>
<b>NET POSITION HELD IN TRUST FOR RETIREE BENEFITS</b>	<u>\$ 256,128</u>	<u>\$ 276,164</u>	<u>\$ 110,348</u>	<u>\$ 116,819</u>	<u>\$ 51,676</u>	<u>\$ 52,180</u>	<u>\$ 418,152</u>	<u>\$ 445,163</u>

**MODESTO IRRIGATION DISTRICT**

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
As of December 31, 2018 and 2017

	<i>(Dollars in Thousands)</i>							
	Basic Retirement Plan		Supplemental Retirement Plan		Retiree Medical Plan		Total Fiduciary Funds	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>ADDITIONS</b>								
Additions to (reductions from) net position attributed to:								
Investment income (loss):								
Net appreciation (depreciation) of investments	\$ (18,025)	\$ 34,931	\$ (8,925)	\$ 9,987	\$ (3,927)	\$ 6,193	\$ (30,877)	\$ 51,111
Dividend income	3,700	2,613	3,899	4,353	1,062	984	8,661	7,950
Interest income	660	1,372	-	-	9	3	669	1,375
Investment expenses	(1,209)	(1,051)	-	-	-	-	(1,209)	(1,051)
Net investment income (loss)	(14,874)	37,865	(5,026)	14,340	(2,856)	7,180	(22,756)	59,385
Contributions								
Employee contributions	572	477	2,273	2,205	26	25	2,871	2,707
Employer contributions	12,883	13,155	2,273	2,205	9,870	8,862	25,026	24,222
Other contributions	-	-	31	-	-	-	31	-
Total Contributions	13,455	13,632	4,577	4,410	9,896	8,887	27,928	26,929
Total Additions (Reductions)	(1,419)	51,497	(449)	18,750	7,040	16,067	5,172	86,314
<b>DEDUCTIONS</b>								
Deductions from net position attributed to:								
Distributions to plan members and beneficiaries	18,341	17,058	6,019	3,569	-	-	24,360	20,627
Medical premiums paid	-	-	-	-	7,469	7,049	7,469	7,049
Other benefits expense	51	-	-	-	-	-	51	-
Administrative expenses	190	154	3	18	75	78	268	250
Consultant and professional services expenses	35	35	-	-	-	-	35	35
Total Deductions	18,617	17,247	6,022	3,587	7,544	7,127	32,183	27,961
<b>Net increase (decrease) in net position held in trust for retiree benefits</b>	(20,036)	34,250	(6,471)	15,163	(504)	8,940	(27,011)	58,353
<b>NET POSITION HELD IN TRUST FOR RETIREE BENEFITS</b>								
Beginning of year	276,164	241,914	116,819	101,656	52,180	43,240	445,163	386,810
<b>END OF YEAR</b>	<b>\$ 256,128</b>	<b>\$ 276,164</b>	<b>\$ 110,348</b>	<b>\$ 116,819</b>	<b>\$ 51,676</b>	<b>\$ 52,180</b>	<b>\$ 418,152</b>	<b>\$ 445,163</b>