Renewing the Vision

Turlock Irrigation District Annual Report 2007

TID at a Glance

Established in 1887, the Turlock Irrigation District was the first publicly owned irrigation district in the state and one of only four in California today that also provides electric retail energy directly to homes, farms and businesses. Organized under the Wright Act, the District operates under the provisions of the California Water Code as a special district. TID is also an independent control area and is governed by a five member Board of Directors.

Electric Service Area

662 square-miles

Number of Electric Accounts at year end

98,423

Irrigation Service Area

307 square-miles

Number of Acres Irrigated

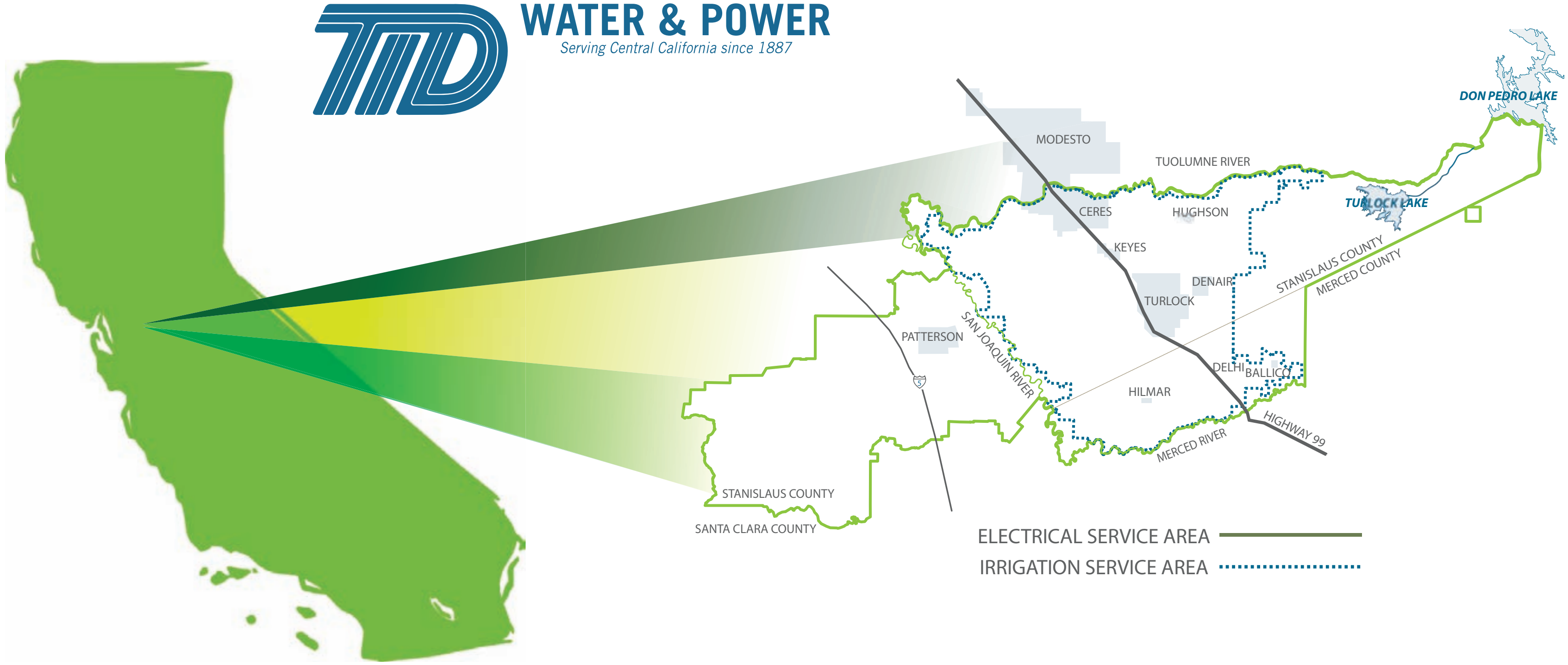
145,290

Employees

482

WATER & POWER

Serving Central California since 1887



Management Team *(pictured from left to right)*

Larry Weis, *General Manager*

Steve Boyd, *Assistant General Manager, Consumer Services*

Casey Hashimoto, *Assistant General Manager, Engineering and Operations*

Jeff Barton, *Assistant General Manager, Civil Engineering and Water Operations*

Joe Malaski, *Assistant General Manager, Financial Services*

Randy Baysinger, *Assistant General Manager, Power Supply*

General Manager's Message

Everything old is new again. Never has that maxim been more true than it is today for the Turlock Irrigation District. Reading the news one could easily be convinced that the quest to generate environmentally friendly electricity from renewable resources is some brave, new idea. The reality is that 2007 marked the 120th anniversary of the District and I am proud that as you read this report you will see that since we began providing retail electricity to our customers in 1923, we have always understood the importance of clean renewable sources of electricity and our responsibility to the environment.

Imagine the late 1800's in the region. Windmills dotting the farming landscape harnessing the power of the wind to pump water for farm and domestic uses. Jumping forward to today, once completed, our new wind project will utilize that same concept and use wind powered turbines to generate over 100 megawatts of electricity, enough to power hundreds of customers every year.

In addition to renewable resources, energy conservation continues to be a key component in our strategy to maintain affordable rates and a reliable supply of electricity to our customers. The Board of Directors adopted an ambitious 10-year energy efficiency plan to help customers save money on their electric bills and conserve energy. Through a variety of programs available to all of our customers, the District saved 9.2 million kilowatt hours of electricity, exceeding our goal of 8.5 million kilowatt hours. This accomplishment set the stage for an even loftier 2008 goal of conserving 9.4 million kilowatt hours.

Beyond energy, water is core to what we do. The Tuolumne River, originating high in the Sierra Nevada Mountains, remains the lifeblood to agriculture within the District, an industry with a local economic value of over $2 billion. Protecting that resource and maximizing the value it brings to all of the communities within the District is the driving force behind our efforts to work with local cities to build a drinking water treatment plant. The plant will be capable of providing clean surface water to participating cities to use conjunctively with their existing supply. Besides assisting the cities, operation of the plant will enhance spawning conditions for the fall run Chinook salmon population.

Our business strategy remains focused on protecting our natural resources and providing a reliable supply of water and energy at a reasonable price to our customers. As we renew the vision for the next 120 years, every decision and project we consider will build on the value of past accomplishments and ensure future generations benefit from our work today.

Larry Weis

120 Years of Service

1887

TID is organized on June 6 as the first irrigation district in California.

1893

TID and MID build La Grange Dam to divert water into their canal systems.

1900

Henry Stirring is the first farmer to receive irrigation water from TID canals.

La Grange Dam, built in 1893 was the highest dam of its kind when completed.

1923

The Original Don Pedro Dam and Powerhouse is constructed and capable of generating up to 15 megawatts and storing 289,000 acre-feet of water.

TID enters the retail electric industry.

1924

TID builds a small power plant at the bottom of La Grange Dam.

An aerial view of Don Pedro Powerhouse. It has a total generating capacity of 203 megawatts.

1971

The New Don Pedro Dam and Powerhouse is constructed with a total generating capacity of 203 megawatts and a water storage capacity of 2,030,000 acre-feet.

1979

TID begins constructing the first of eight small scale hydroelectric power plants on its canal system as well as surrounding irrigation districts' canals.

1984

TID acquires interest in a geothermal power plant in the Geysers Steam Field located in Lake County, California.

1986

Walnut Power Plant, a natural gas-fired plant, begins operation with a generating capacity of 49.9 megawatts.

TID has always focused heavily on providing exceptional customer service. In the 1990's surveys and focus groups were established to find out what the customers' interests were.

1995

Almond Power Plant, a natural gas-fired plant, begins operation with a generating capacity of 48 megawatts.

2003

TID purchases 225 square-miles from the PG&E on the western side of the District.

2005

TID obtains certification as an independent control area.

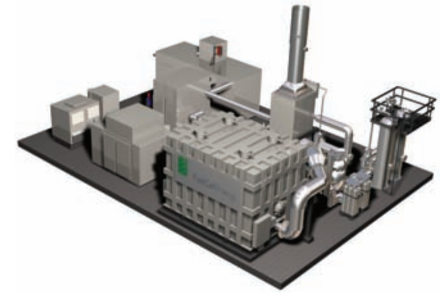
2006

Walnut Energy Center, a natural gas-fired plant, begins operation with a generating capacity of 250 megawatts.

Walnut Energy Center began operation on February 28, 2006. The plant has a total generating capacity of 250 megawatts.

2007

TID begins installing a 1.2 megawatt fuel cell at the City of Turlock's Regional Water Quality Control Facility.



TID signs a letter of intent to acquire a wind generation project located on the Oregon-Washington border.

TID exceeds energy efficiency goals with the help of new incentive programs, including the New Construction Rebate Program which is identified by the "Living Green Certified" logo.

The construction of both the Westley 230/115 kV substation and the double circuit 115kV transmission line is completed.

TID invests in a pilot project for advanced "smart meters."

Dexter Duck makes his debut in early 2007. The mascot helps TID convey water and electrical safety messages.

Focusing on Renewable Energy

TID has embraced renewable energy since its earliest days of electrical system operation. The original Don Pedro Dam and Powerhouse was constructed in 1923, becoming TID's first significant source of clean, renewable hydroelectric power. Later in 1971, the New Don Pedro Dam and Powerhouse was built with a total generating capacity of 203 megawatts and remains in operation today. Although large hydroelectric power has been the electrical lifeblood of TID, it has continued to seek other ways to provide clean energy to its customers.

In the late 1970's, TID was the first in California to construct small-scale hydroelectric power plants using its own canal system and those of neighboring irrigation districts. In 1984, TID acquired an interest in a geothermal power plant in the Geysers Steam Field located in California's Lake County. Today, TID is in the process of building California's largest fuel cell. Partnering with the City of Turlock, TID is installing a 1.2 megawatt fuel cell at the City's Regional Water Quality Control Facility where it will convert methane gas produced by the facility into electricity.

Looking ahead, TID has completed the due diligence required for acquiring over 100 megawatts of a wind generation project located in Washington State. This is TID's first investment in wind generation and the project is expected to be online in 2009. This acquisition will meet the Board adopted target of providing 20% of its power with renewable resources by 2017.

Continuing the legacy of maximizing the use of water resources to generate hydroelectric power, TID is exploring a pumped storage project to generate electricity during peak demand. The project consists of building a small reservoir adjacent to the existing Don Pedro Reservoir. Water will be pumped into the reservoir when demand for energy is low and the price for electricity is less expensive. The water will then be released back into Don Pedro Reservoir to generate power when the demand and price for electricity is high. Although the addition of renewable resources is vital to reducing dependence on fossil fuels, maintaining electric system reliability remains a core focus for TID. The nature of the pumped storage project will increase the reliability of the electric grid with the ability to quickly replace solar and wind generated electricity that could vary significantly with weather conditions.

TID has a proven history of environmental stewardship by securing renewable energy through innovative strategies and will continue to seek additional, appropriate ways to keep the communities it serves green.

Exceeding our Energy Efficiency Goal

In September 2007, the TID Board of Directors adopted an aggressive 10-year plan to promote energy conservation by assisting customers with efficiency projects. The 2007 target was to conserve 8.5 million kilowatt hours of electricity. TID exceeded the energy efficiency goal by designing and implementing several residential, commercial, industrial and agricultural programs that helped customers save 9.2 million kilowatt hours of electricity. These efficiency programs offer various rebate opportunities, guidance and assistance to encourage customers to conserve energy.

Solar Rebate Program

In an effort to encourage customers to invest in renewable energy generation, TID implemented the Solar Photovoltaic (PV) Rebate Program. This program provides an incentive to TID customers who purchase and install solar power at their home or business. Customers who install PV systems continue to receive electricity from TID when their electrical use exceeds the production of their PV systems, but when a customer's PV system produces more power than they consume, the extra power flows into the TID grid and the customer receives credit for each kilowatt hour of energy supplied to TID. The program rewards participating electric customers with one of the highest rebates currently available in California.

Dairy Design Assistance Program

The Dairy Design Assistance Program provides technical assistance and rebates to help dairy operators reduce their electricity consumption. The program provides rebates to dairymen who install qualifying energy efficient equipment such as: premium efficiency motors, variable frequency drives on vacuum systems, high-efficiency fans, light fixtures, refrigeration and compressed air systems. In addition to lending technical assistance, TID provides continuing education to support the design and construction of energy efficient facilities and process systems for new facilities or when retrofitting existing dairies.

"Living Green Certified" Construction

As part of TID's ongoing efforts to reduce greenhouse gases, conserve energy and assist the communities it serves, TID created the "Living Green Certified" program. The program provides incentives to builders who incorporate energy efficiency measures into new residential home construction. It provides rebates to builders who install all ENERGY STAR® rated appliances, achieve a 35 percent reduction in the structure's combined space heating, space cooling and water heating energy and a 40 percent reduction in the building's air conditioning energy compared to the current Title 24 Standards. There is an additional financial incentive to incorporate solar photovoltaic systems into the homes. The TID "Living Green Certified" stamp assures buyers that the home meets or exceeds the program requirements.

Educating the Future

TID maintains a strong commitment to educate the youth in the fourteen communities that it serves about the importance of water and energy. TID's Education Program has grown through the years to encompass a variety of topics as well as provide multiple resources to aid teachers in educating their students. In 2007, several key elements were incorporated to revitalize the Education Program, including the addition of a new mascot, an energy conservation program and a mobile education trailer.

The need to have one identifiable character to deliver all of TID's important safety messages led to the creation of TID's new mascot, Dexter Duck, introduced in the spring of 2007. A duck, that can fly and swim, relates to TID's primary services, water and energy. Dexter visits schools and events delivering canal and electrical safety messages to children and adults in the community.

TID also began offering an Energy Wise Program to sixth grade classrooms. The program uses a hands on approach to energy education and includes lesson plans that meet state teaching standards. TID's full-time Education Specialist provides classroom presentations to introduce the program and explain the significance of energy conservation. The program allows teachers and students to discuss the magnitude of energy resources, the role they play in our everyday lives and the importance of energy efficiency and conservation.

Increased participation in community events and school presentations led to the development of an education trailer in 2007. The thirty-two foot trailer is outfitted with maps identifying TID's irrigation and electric service areas and the Tuolumne River Watershed. Hands on displays and videos illustrate the basics of water and energy and take people through the 120 year history of TID. Additionally, an interactive "smart house" demonstrates electrical safety and energy conservation. Information about rebate incentive programs, along with the many programs that TID has to offer is also available in the trailer.

Enhanced Reliability and Forward Thinking

TID's electrical system's high level of reliability is attributed to strategic planning for infrastructure enhancements and additions as well as using innovative advancements in technology. In 2007, TID invested in a pilot project for advanced meters and completed a substation and transmission line that has further enhanced the reliability of its electrical system.

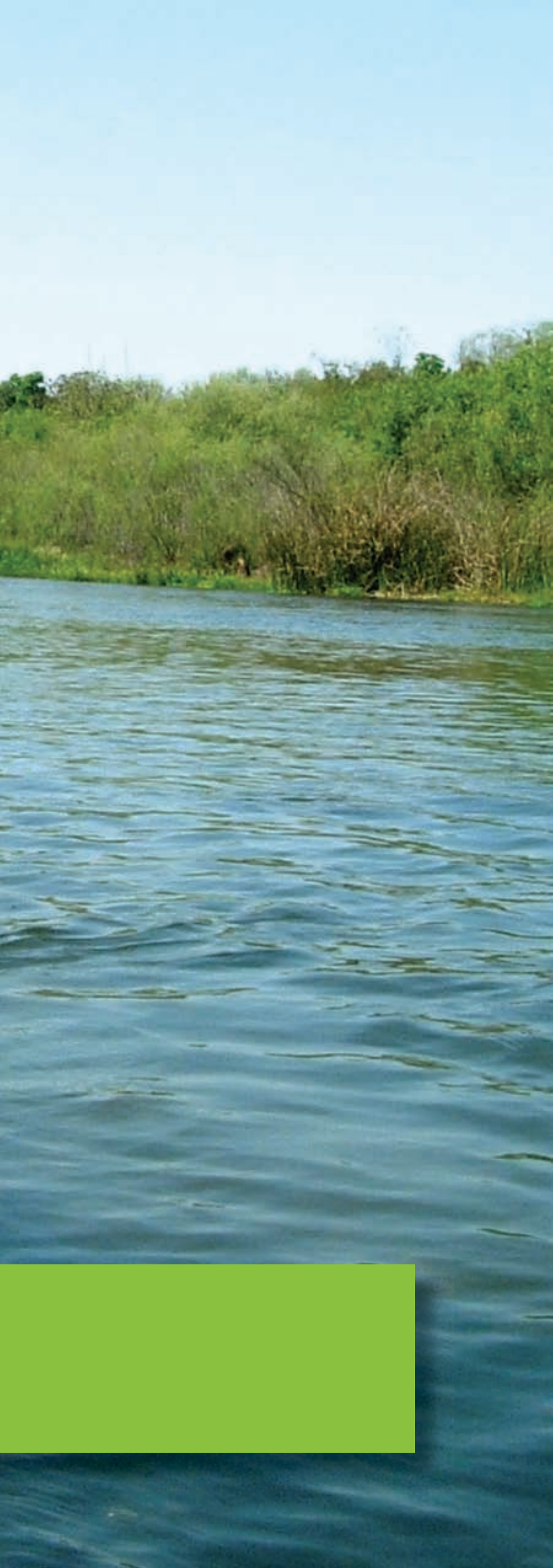
Testing "Smart Meters"

Advancements in the latest meter technology prompted TID to invest in a pilot project with "smart meters." These electric meters communicate with each other and send energy data via radio signals to a collector unit, which transmits meter information to a computer at a TID facility. This ability to communicate enables "smart meters" to gather meter reads for monthly billing, as well as mid-month reads that are needed when customers move into or out of a property. Advanced metering systems not only measure total consumption for a residence or business, but also can be used to determine when energy is used, down to 15 minute intervals. The meters can be read remotely and facilitate remote power connections and disconnections. In the future, customers will be able to monitor their energy use online in order to make more informed decisions about their usage.

Westley 115 kV Intertie Project

TID's existing 69kV transmission system was reaching its design capacity and it was determined in 1996 that a new 115 kV transmission loop would be needed to handle future load growth. Completed in 2007, the Westley 115 kV Intertie Project, consisted of the construction of the Westley 230/115 kV Substation, the expansion of the existing Westley Switchyard and the production of a double circuit 115 kV transmission line to Marshall Substation. The project strengthened TID's reliable, consistent electrical service.

Utilizing Nature's Resources



Innovative thinking about meeting changing environmental demands while protecting TID's long standing water rights, led to the concept of developing a Regional Surface Water Supply Plant. TID continues to search for methods to maximize the beneficial use of every drop of the Tuolumne River to secure water for future generations. Faced with dropping water tables, more restrictive regulatory standards and aging well systems, TID and local water purveyors are working collaboratively to find an alternative solution to protect groundwater, safeguard surface water for irrigation needs, as well as help meet future local drinking water needs.

TID made headway in 2007 on the initial phase of the analysis to determine the practicability and financial impact of building and operating a Regional Surface Water Supply Plant. The plant will provide a portion of the drinking water needs for four local communities within TID, all of which currently rely solely on groundwater for their supply. Once completed, the plant and associated infrastructure will treat and deliver up to 40.5 million gallons of water per day to the involved cities.

Beyond providing drinking water, the multi-use facility will increase irrigation system flexibility as well as enhance the Tuolumne River. Water, released into the river from Don Pedro Reservoir, will flow 25 miles through critical Chinook salmon spawning and rearing reaches of the river before being pumped to the plant. The increased flows in the upper reaches of the river is expected to further improve salmon spawning conditions and increase the number of salmon migrating to the ocean annually. Additionally, water pumped to the plant can be diverted into the existing irrigation system and put to use on local farms. The plant will be located on a bluff above the Tuolumne River and will require the installation of nearly 17 miles of pipeline to deliver the wholesale water to the four cities.

Historical Operating Statistics

For the years ended December 31

	2007	2006	2005	2004	2003
Average Customers At End Of Period:					
Residential	70,981	70,715	68,257	65,218	62,813
Commercial	6,851	6,748	6,584	6,419	6,094
Industrial	784	766	730	687	718
Other (1)	19,807	19,214	18,346	17,307	15,646
Total	98,423	97,443	93,917	89,631	85,271 (3)
MWh SALES:					
Residential	706,977	729,792	678,878	661,266	602,930
Commercial	125,614	125,050	121,825	119,746	109,644
Industrial	753,617	709,315	675,016	651,200	584,283
Other (1)	422,016	395,600	338,395	327,811	306,511
Total Retail	2,008,224	1,959,757	1,814,114	1,760,023	1,603,368
Wholesale Power	1,392,429 (4)	995,658 (5)	950,873 (5)	356,686 (5)	354,687 (5)
Total	3,400,653	2,955,415	2,764,987	2,116,709	1,958,055
Sources Of MWh:					
Generated by district	1,748,714	1,762,745	776,112	425,110	337,430
Purchased	1,706,265 (4)	1,239,151 (5)	2,088,418 (5)	1,799,808 (5)	1,682,451 (5)
Subtotal	3,454,979	3,001,896	2,864,530	2,224,918	2,019,881
System losses	54,326	46,481	99,543	108,209	61,826
Total	3,400,653	2,955,415	2,764,987	2,116,709	1,958,055
Electric Energy Revenues:					
(In Thousands)					
Residential	$86,561	$81,956	$70,659	$65,231	$58,563
Commercial	13,587	12,874	11,630	11,081	9,988
Industrial	62,058	55,026	44,643	40,100	35,336
Other (1)	38,534	32,521	26,535	24,152	22,561
Total Retail Energy	200,740	182,377	153,467	140,564	126,448
Electric Service Charges	373	324	284	295	213
Other Electric Revenue	270	165	164	(645)	94
Electric Energy Retail	201,383	182,866	153,915	140,214	126,755
Wholesale Power	86,408 (4)	57,083 (4)	58,296 (4)	24,081 (4)	22,335 (4)
Total	$287,791	$239,949	$212,211	$164,295	$149,090
System Peak Demand(MW)	516	534	476	437	406
Average MWh Sales					
Per Customer For The Period					
Residential	9.960	10.320	9.946	10.139	9.599
Commercial	18.335	18.531	18.503	18.655	17.992
Industrial	961.246	925.999	924.679	947.889	813.765
Average Revenue					
Per MWh For The Period					
Residential	$122.44	$112.30	$104.08	$98.65	$97.13
Commercial	$108.16	$102.95	$95.46	$92.54	$91.09
Industrial	$82.35	$77.58	$66.14	$61.58	$60.48
Average Cost Of Power					
Per KWh For Retail Load (2)	$0.066	$0.055	$0.046	$0.055	$0.048

(1) Includes agricultural and municipal water pumping, street lighting, and interdepartmental meters.

(2) Includes depreciation, excludes debt service.

(3) District acquired Westside Service territory which included 5,778 accounts.

(4) Includes adjustments for transaction "bookouts" which were not physically settled into the District's system.

(5) Revised to reflect adjustments for "bookouts."

Historical Results of Operations

For the years ended December 31

(in thousands)	2007	2006	2005	2004	2003
Operating Revenues:					
Electric energy - Retail	$201,383	$182,866	$153,915	$140,214	$126,755
Electric energy - Wholesale	86,408 (1)	57,083	58,296 (1)	24,081 (1)	22,335 (1)
Small Hydropower					
Other Electric					
Irrigation	6,571	6,168	6,105	5,603	5,191
Other	12,406	11,803	4,911	3,449	343 (2)
Total Operating Revenue	306,768	257,920	223,227	173,347	154,624
Operating Expenses:					
Power Supply:					
Purchased Power	93,293 (1)	65,177 (1)	120,184 (1)	103,074 (1)	89,108 (1)
Generation and Fuel	112,255	89,172 (4)	14,164	11,847	8,064
Total Power Supply	205,548	154,349	134,348	114,921	97,172
Other Electric O&M	16,541	15,416	12,593	14,459	10,823
Irrigation O&M	10,240	10,482	8,302	8,032	8,490
Public Benefits	3,111	3,429	3,133	2,855	2,102
Administration and General	17,650	18,357	14,915	15,208	14,191
Depreciation and amortization	27,854	23,126	15,936	14,360	13,121
Total Operating Expenses	280,944	225,159	189,227	169,835	145,899
Operating Income	25,824	32,761	34,000	3,512	8,725
Other Income					
Interest	6,044	5,761	3,409	2,901	5,292 (2)
Miscellaneous	6,634	6,402	6,571	5,955	6,117 (2)
Total Other Income	12,678	12,163	9,980	8,856	11,409
Interest Expense					
Long Term Debt	23,894	20,955	10,902	9,194	9,920
Transfer (To) From Deferred Regulatory Credits	0	0	0	0	0 (2)
Net Income	14,608	23,969	33,078	3,174	10,214
Retained Earnings:					
Beginning of Year	329,272	305,303	272,225	269,051	258,837
End of Year	$343,880	$329,272	$305,303	$272,225	$269,051
Debt Service Coverage - Revenue Bonds/COP's	1.91x	2.38x	2.71x	1.64x (3)	1.83x

(1) Includes adjustments for transaction "bookouts" which were not physically settled into the District's system.

(2) Revised 2003 to reflect changes in reporting format.

(3) Rate Stabilization transfer of $7,240.

(4) Walnut Energy Center went commercial 02/28/06.

Report of Independent Auditors

To the Board of Directors of
Turlock Irrigation District

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material aspects, the financial position of Turlock Irrigation District and its blended component unit (the "District") at December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Effective January 1, 2007, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions, which changed the District's measurement of annual costs and disclosures associated with its post-employment medical plan.

The management's discussion and analysis included is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

April 18, 2008

Management's Discussion & Analysis

The following management's discussion and analysis of the Turlock Irrigation District (the "District") and its financial performance provides an overview of the District's financial activities for the years ended December 31, 2007 and 2006. This management's discussion and analysis should be read in conjunction with the District's financial statements and accompanying notes, which follow this section.

Background

The District is an irrigation district organized under the provisions of the Wright Act and has the powers provided therein. Organized in 1887, the District was the first of 65 irrigation districts to be formed in the State of California. The Board of Directors (the "Board") governs the District. The five members of the Board are elected from geographic divisions of the District for staggered four-year terms. The Board appoints a general manager and certain other senior managers who are responsible for the operations of the District.

Since 1923, the District has provided all the electric service within its 425 square-mile service area, which includes portions of Stanislaus, Merced and Tuolumne counties. The District's service area includes the cities of Turlock, Ceres, Hughson and a part of Modesto and the unincorporated communities of Ballico, Keyes, Denair, Hickman, Delhi and Hilmar.

In December 2003, the District completed the acquisition of PG&E's electric distribution facilities in a portion of the west side of Stanislaus County, including the City of Patterson, the community of Crows Landing and certain adjacent rural areas (collectively, the "Westside"). The Westside covers approximately 237 square miles and includes 10,260 electric customer accounts.

To provide electric service within its service area, the District owns and operates an electric system, which includes generation, transmission and distribution facilities. Its generating facilities include hydroelectric units and oil and gas-fired facilities. The District also purchases power and transmission service from other sources and participates in other utility arrangements.

The District also supplies water for irrigation use within 308 square miles of its service area, comprising approximately 5,800 parcels of land and 250 miles of gravity flow canals and laterals. The District's electric and irrigation systems are operated and accounted for as a single entity; hence, revenues from both systems are available to pay the obligations of the District.

Rates and Charges

The District's Board has full and independent authority to establish revenue levels and rate schedules for all electric service provided by the District. The District is not subject to retail rate regulation by any State or federal regulatory body, and is empowered to set retail rates effective at any time. The District has maintained rates for electric service that have been sufficient to provide for all operating and maintenance costs and expenses, debt service, repairs, replacements and renewals and to provide for base capital additions to the system. The Board fixes rates and charges of the District based on a cost of service methodology.

The District increased electric rates by an average of 15.00% effective February 1, 2006.

The District has a credit requirement for all new service connections, which requires new customers to verify their good credit standing with their former electric utility provider or to place a deposit with the District if an acceptable credit standing cannot be verified.

Financial Reporting

The District maintains its accounts in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB), and where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). The District is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The District uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. 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), except as it relates to the accounting for contributed property.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, the Board has taken various regulatory actions for ratemaking purposes that result in the deferral of revenue or expense recognition. At December 31, 2007 and 2006, the District had a regulatory asset of $8.3 million and $0.9 million, respectively. At December 31, 2007 and 2006, the District had total regulatory credits of $26.3 million and $26.5 million, respectively. The regulatory assets and credits will be recognized in the statement of revenues, expenses and changes in net assets when determined by the Board for ratemaking purposes.

Investment Policies and Procedures

The Board reviews the investment policy on an annual basis. The District also has an Investment Committee, comprised of the Treasurer, Deputy Treasurer, General Manager and two members of the Board. This committee meets on an as-needed basis to review issues related to the District's investments. The District has contracted with Public Financial Management, Inc. (PFM), a leading investment manager of public entity funds, to invest the District's cash and investments. PFM only purchases investments on behalf of the District which are permitted by the District's investment policy. The Bank of New York Western Trust Company holds these investments in custody.

Debt Management Program

The District regularly reviews its debt structure, which includes the issuance of refunding bonds to achieve debt service savings. From 1986 through 2003, the District has undergone six refundings comprising a major portion of its debt to achieve debt service savings.

Component Unit

The Walnut Energy Center Authority (the "Authority") was formed in 2004 for the purposes of developing and operating a 250 MW natural gas fueled generation facility located in the District's service territory. Although the Authority is a separate legal entity from the District, it is blended into and reported as part of the District because of the extent of its operational and financial relationship with the District. Accordingly, all operations of the Authority are consolidated into the District's financial statements.

Using this Financial Report

This annual financial report consists of management's discussion and analysis and the financial statements, including notes to the financial statements. The annual financial report reflects the activities of the District primarily funded through the sale of energy, transmission, and distribution services to its retail and wholesale customers, as well as irrigation services.

Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows

The balance sheets include all of the District's assets and liabilities, using the accrual basis of accounting, as well as information about which assets can be utilized for general purposes, and which assets are restricted as a result of bond covenants and other commitments. The statements of revenues, expenses, and changes in net assets report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as cash payments for debt service and capital expenditures and cash proceeds from investments.

Summary of Financial Position and Changes in Net Assets (dollars in thousands) as of and for the years ended December 31, 2007, 2006, and 2005

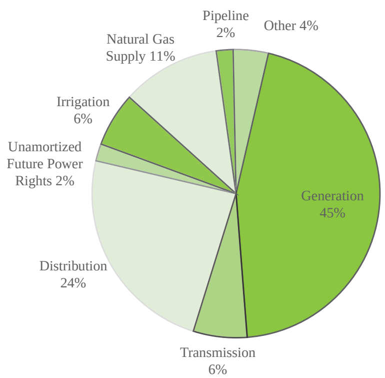
	2007	2006	2005
Assets			
Utility plant, net	$743,515	$701,873	$632,441
Cash and investments	145,082	166,954	170,789
Other non-current assets	14,698	7,986	8,953
Other current assets	46,281	44,903	45,016
	$949,576	$921,716	$857,199
Liabilities and Net Assets			
Long-term debt	$394,726	$404,768	$412,107
Other non-current liabilities and deferred credits	40,425	41,163	33,230
Other current liabilities	170,545	146,513	106,559
Total liabilities	605,696	592,444	551,896
Net assets:			
Invested in capital assets, net of related debt	264,787	247,267	214,875
Restricted	10,432	9,728	9,020
Unrestricted	68,661	72,277	81,408
Total net assets	343,880	329,272	305,303
	$949,576	$921,716	$857,199
Revenue, Expenses and Changes in Net Assets			
Operating revenues	$306,768	$257,920	$223,227
Operating expenses	(280,944)	(225,159)	(189,227)
Operating income	25,824	32,761	34,000
Net investment income	6,044	5,761	3,409
Other income, net	6,634	6,402	6,571
Interest expense	(23,894)	(20,955)	(10,902)
Increase in net assets	14,608	23,969	33,078
Net assets, beginning of year	329,272	305,303	272,225
Net assets, end of year	$343,880	$329,272	$305,303

Management's Discussion and Analysis as of and for the Year Ended December 31, 2007

ASSETS

Utility Plant

The District has invested approximately $743.5 million in utility plant assets and construction work in progress, net of accumulated depreciation at December 31, 2007. The District transferred approximately $35.0 million of assets from construction work in process to utility plant assets in 2007. Net utility plant makes up 78% of the District's assets at December 31, 2007, compared to 76% in the prior year. The following chart shows the breakdown of net utility plant by major plant category at December 31, 2007 – generation, transmission, distribution, natural gas supply, pipeline, unamortized future power rights, irrigation and other:



During 2007, the District capitalized $69.1 million of additions to construction work in progress and utility plant. The District invested $10.9 million in gas field development activities. The District also invested $33.0 million to add/upgrade certain transmission and distribution assets, $11.5 million for routine expansion which consists of transformers, transmission and distribution (T&D) lines, meters, lights, and new services and $7.1 million in irrigation improvements (including $4.1 million for the Domestic Water Infiltration project).

Cash and Investments

The District's cash and investments decreased $21.9 million during 2007. This was primarily due to cash used by capital and financing activities.

Other Non-current Assets

Other non-current assets increased $6.6 million. This increase was primarily due to change in regulatory assets of $7.4 million offset by amortization of District assets totaling $0.8 million.

Other Current Assets

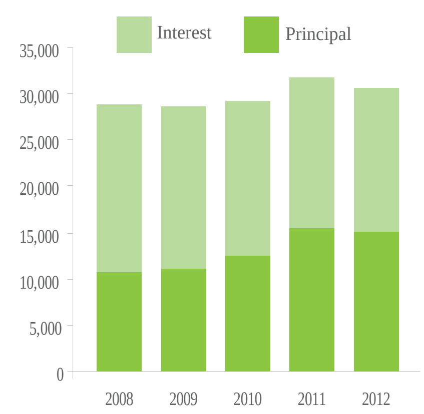
Other current assets in 2007 increased $1.4 million when compared to 2006. This was primarily due to an increase of energy receivables of $5.2 million due to an increase in rates and consumption, a increase in accrued interest and other receivables of $1.0 million primarily for credits due under transmission agreements and an increase in materials and supplies of $0.8 million due to increased construction in progress offset by a decrease in the current portion of derivatives of $5.2 million and a decrease in prepaid expenses of $0.4 million.

LIABILITIES AND CHANGES IN NET ASSETS

Long-term Debt

Long-term debt decreased $10.0 million in 2007 as a result of scheduled principal payments.

The following table shows the District's future debt service requirements from 2008 through 2012 at December 31, 2007 (dollars in thousands):



At December 31, 2007, the District's bond ratings are A1 from Moody's, A+ from Fitch and A+ from Standard and Poor's.

In 2004, the District purchased a financial guaranty insurance policy to insure the regularly scheduled payment of principal and interest on $201 million of 2004 Revenue Bond Series A, B and C. The 2004 revenue bonds series B and C total $58.3 million and are variable rate bonds that bear interest based on weekly auction rates. In January 2008, the insurer's credit rating was downgraded and/or put on review for possible downgrade by several credit agencies. This has resulted in increases in interest rates on the Series B and C revenue bonds. To minimize this interest rate exposure, the District is considering a number of alternatives if the markets continue resulting in abnormally high interest rates. Under the terms of the bond indenture, the Series B and C revenue bonds cannot be put back to the District.

Other Non-current Liabilities and Deferred Credits

Other non-current liabilities and deferred credits decreased $0.7 million in 2007. The decrease was due primarily to a decrease in the District's share of the Transmission Agency of Northern California obligation of $1.1 million and a decrease in deferred regulatory credits of $0.2 million offset by an increase in long-term lease obligation of $0.3 million and an increase in the non-current portion of derivative financial instruments of $0.3.

Other Current Liabilities

Other current liabilities increased $24.0 million in 2007. This was primarily the result of an increase in Commercial Paper of $33.4 million relating to ongoing construction work in progress, an increase in accrued salaries, wages and related benefits of $2.0 million due to the implementation of GASB 45 and increased wages and related benefits offset by a decrease in trade and power purchase payables of $7.0 million, a decrease in the current portion of derivatives of $3.0 million and a decrease in current portion of lease obligation of $1.4 million.

CHANGES IN NET ASSETS

Operating Revenues

Operating revenues increased $48.8 million from $257.9 million in 2006 to $306.8 million in 2007. Retail power revenues were up $18.5 million due to an increase in PSA revenue of $9.0 million as a result of increased purchased power and fuel costs and a 2.5% increase in consumption as a result of customer growth from 97,443 in 2006 to 98,423 in 2007. Wholesale revenues increased $29.3 million from $57.1 million in 2006 to $86.4 million in 2007 as a result of approximately 40% increase in volumes sold, an increase in average sales price of approximately 9% from an average of $56/MWh in 2006 to $61/MWh in 2007.

Operating Expenses

Purchased power, generation and fuel expenses were $205.5 million in 2007 compared to $154.3 million in 2006. Purchased power costs increased by approximately 39% due to higher prices during 2007 and higher volumes of power purchase required as a result of increased retail consumption and poor hydro conditions. Depreciation expense increased approximately $4.7 million primarily due to a full year depreciation on the Walnut Energy Center Power Plant and utility plant additions. The District's other operating expenses remained relatively unchanged.

Net Investment Income

Net investment income in 2007 was $0.3 million higher than in 2006, primarily as a result of better market conditions in 2007.

Other Income

Other income is up $0.2 million in 2007 when compared to 2006. This increase is the result of a $0.5 million increase in property tax revenue offset by a $0.3 million decrease in contribution in aid of construction.

Interest Expense

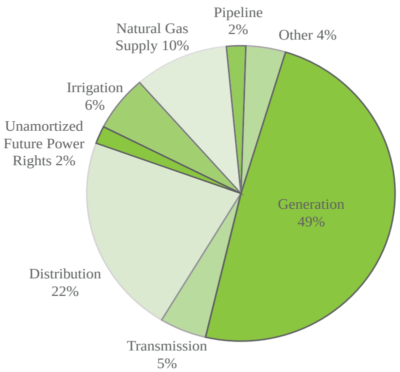
Interest expense increased $2.9 million in 2007 as compared to 2006, primarily due to interest payments on the 2004 Walnut Energy Center Authority Revenue bonds being expensed rather than capitalized for two months of 2006 a result of the Walnut Energy Center commencing operations in February 2006 and increased commercial paper issuance due to continued construction in progress.

Management's Discussion and Analysis as of and for the Year Ended December 31, 2006

ASSETS

Utility Plant

The District has invested approximately $701.9 million in utility plant assets and construction work in progress, net of accumulated depreciation at December 31, 2006. The District transferred approximately $299.5 million of assets from construction work in process to utility plant assets in 2006, of which approximately $217.5 million of the transfer relates to the Walnut Energy Center. Net utility plant makes up 76% of the District's assets at December 31, 2006, compared to 74% in the prior year. The following chart shows the breakdown of net utility plant by major plant category at December 31, 2006 – generation, transmission, distribution, natural gas supply, unamortized future power rights, irrigation and other:



During 2006, the District capitalized $93.9 million of additions to construction work in progress and utility plant. The District invested $41.7 million in natural gas fields in order to hedge the cost of fuel supply for the Walnut Energy Center. The District also invested $1.0 million for a mainframe computer and $7.3 million to upgrade certain transmission and distribution assets, $20.6 million for Walnut Energy Center construction and $11.1 million for routine expansion which consists of transformers, T&D lines, meters, lights, and new services.

Cash and Investments

The District's cash and investments decreased $3.8 million during 2006. This was primarily due to cash used by capital and financing activities, offset by cash provided by operating and investing activities.

Other Non-current Assets

Other non-current assets decreased $1.8 million. This decrease was primarily due to amortization of District assets totaling $0.8 million and change in regulatory assets of $1.0 million.

Other Current Assets

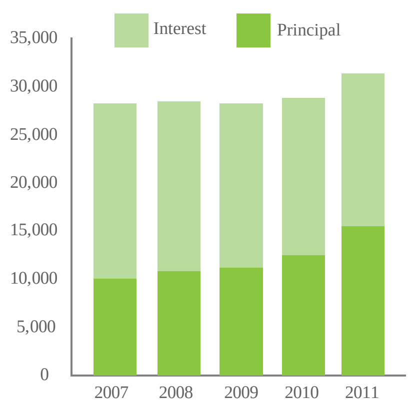
Other current assets in 2006 increased $0.8 million when compared to 2005. This was primarily due to an increase of energy receivables of $3.5 million due to an increase in rates and consumption, a decrease of $3.9 in NCPA operating reserves and a $1.0 million increase in accrued interest receivable due to higher interest rates.

LIABILITIES AND CHANGES IN NET ASSETS

Long-term Debt

Long-term debt decreased $7.3 million in 2006 as a result of scheduled principal payments.

The following table shows the District's future debt service requirements from 2007 through 2011 at December 31, 2006 (dollars in thousands):



At December 31, 2006, the District's bond ratings are A1 from Moody's, A+ from Fitch and A+ from Standard and Poor's.

Other Non-current Liabilities and Deferred Credits

Other non-current liabilities and deferred credits increased $7.9 million in 2006. The increase was due primarily to a leasehold obligation for gas pipeline of $11.6 million in connection with the Walnut Energy Center, a decrease in the District's share of the Transmission Agency of Northern California obligation of $3.0 million, a decrease in the current portion of derivative financial instruments of $1.1 million and an increase of deferred regulatory credits of $1.8 million.

Other Current Liabilities

Other current liabilities increased $40.0 million in 2006. This was primarily the result of an increase in Commercial Paper of $33.5 million relating to the investment in gas fields, an increase in trade and power purchase payables of $5.1 million and the current portion of the lease obligation payable of $1.4 million.

CHANGES IN NET ASSETS

Operating Revenues

Operating revenues increased $34.7 million from $223.2 million in 2005 to $257.9 million in 2006. Retail power revenues were up $29.0 million due to a 15% rate increase and an 8% increase in consumption as a result of customer growth from 93,917 in 2005 to 97,443 in 2006. The District had wholesale gas revenues of approximately $10.0 million in 2006 as compared to $3.5 million in 2005, due to a full year of operation of the gas field purchased in 2005, along with a partial year of operations of the gas field purchased in 2006.

Operating Expenses

Purchased power, generation and fuel expenses were $154.3 million in 2006 compared to $134.3 million in 2005. Purchased power costs decreased by approximately 51% due to lower prices during 2006 and lower volumes of power purchase required as a result of an increase in District-owned generation. With the commercial operation of Walnut Energy Center commencing in February 2006, the District's generation increased approximately 127% from 776,112 MWh in 2005 to 1,761,478 MWh in 2006. The District's other operating expenses remained relatively unchanged.

Net Investment Income

Net investment income in 2006 was $2.4 million higher than in 2005, primarily as a result of higher interest rates in 2006.

Other Income

Other income is down $0.2 million in 2006 when compared to 2005. This decrease is the result of $0.8 million decrease in contribution in aid of construction and a $0.6 million increase in property tax revenue.

Interest Expense

Interest expense increased $10.1 million in 2006 as compared to 2005, primarily due to interest payments on the 2004 Walnut Energy Center Authority Revenue bonds being expensed rather than capitalized for ten months of 2006. This change was a result of the Walnut Energy Center commencing operations in February 2006.

Consolidated Balance Sheets

December 31, 2007 and 2006

(dollars in thousands)

	2007	2006
Assets		
Utility plant, net	$743,515	$701,873
Investments and other long term assets:		-
Cash and cash equivalents restricted for long-term purposes	15,623	
Long-term investments, including restricted amounts	68,263	88,621
Debt issuance costs and other assets	5,493	6,233
Derivative financial instruments, net of current portion	908	875
Deferred regulatory asset	8,297	878
	98,584	96,607
Current assets:		
Cash and cash equivalents, including restricted amounts	53,239	78,333
Short-term investments, including restricted amounts	7,957	-
Retail accounts receivable, net	16,917	15,019
Wholesale accounts receivable, net	9,718	6,462
Accrued interest and other receivables	9,465	8,484
Materials and supplies, net	3,578	2,792
Prepaid expenses and other current assets	2,838	3,235
Derivative financial instruments	3,765	8,911
	107,477	123,236
Total assets	$949,576	$921,716
Capitalization and Liabilities		
Capitalization:		
Net assets:		
Invested in capital assets, net of related debt	$264,787	$247,267
Restricted	10,432	9,728
Unrestricted	68,661	72,277
Total net assets	343,880	329,272
Long-term debt, net of current portion	383,951	394,728
Total capitalization	727,831	724,000
Liabilities and deferred credits:		
Deferred regulatory credits	26,346	26,512
Derivative financial instruments, net of current portion	276	11
Long-term lease obligation	10,557	10,247
Affiliate obligation	3,246	4,393
	40,425	41,163
Current liabilities:		
Commercial paper notes	119,420	86,050
Current portion of long-term debt	10,775	10,040
Power purchases payable	12,813	12,099
Accounts payable and accrued expenses	13,128	20,803
Accrued salaries, wages and related benefits	7,435	5,371
Customer deposits and advances	7,223	7,053
Accrued interest payable	7,703	7,906
Current portion of lease obligation	-	1,387
Derivative financial instruments	2,823	5,844
	181,320	156,553
Commitments and contingencies (Notes 4, 6, 7, 10, 11, 12 and 13)		
Total capitalization and liabilities	$949,576	$921,716

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Revenues, Expenses & Changes in Net Assets

For the years ended December 31, 2007 and 2006

(dollars in thousands)	2007	2006
Operating revenues:		
Electric:		
Retail	$201,383	$182,866
Wholesale	86,408	57,083
Irrigation	6,571	6,168
Wholesale Gas	9,627	9,965
Other	2,779	1,838
	306,768	257,920
Operating expenses:		
Purchased power	93,293	65,177
Generation and fuel	112,255	89,172
Other electric	16,541	15,416
Irrigation	10,240	10,482
Public Benefits	3,111	3,429
Administration and general	17,650	18,357
Depreciation and amortization	27,854	23,126
	280,944	225,159
Operating Income	25,824	32,761
Nonoperating revenues and expenses:		
Net investment income	6,044	5,761
Other income, net	6,634	6,402
Interest expense	(23,894)	(20,955)
	(11,216)	(8,792)
Increase in net assets	14,608	23,969
Net assets - beginning of year	329,272	305,303
Net assets - end of year	$343,880	$329,272

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31,2007 and 2006

(dollars in thousands)

	2007	2006
Cash flows from operating activities:		
Receipts from electric customers	$199,005	$178,690
Receipts from wholesale power sales	83,152	57,404
Receipts from irrigation customers	6,586	5,721
Receipts from sales of gas	9,257	9,965
Payments to vendors for purchased power	(100,659)	(67,358)
Payments to employees and vendors for generation and fuel and other electric	(130,371)	(104,588)
Payments to employees and vendors for irrigation	(10,266)	(10,482)
Payments to employees and vendors for administration and general	(16,522)	(13,160)
Other receipts, net	3,872	5,005
Net cash provided by operating activities	44,054	61,197
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(71,983)	(77,726)
Proceeds from contributions in aid of construction	3,423	3,762
Repayment of long-term debt	(10,040)	(7,360)
Repayment of long-term lease obligation	(2,525)	(789)
Repayment of commercial paper	(2,800)	(2,615)
Proceeds from issuance of commercial paper	36,170	36,096
Interest payments on long-term debt	(23,980)	(21,527)
Interest payments on long-term lease obligation	(477)	(624)
Net cash used in capital and related financing activities	(72,212)	(70,783)
Cash flows from investing activities:		
Investment income	6,286	5,751
Sales of investments, net	12,401	1,587
Net cash provided by investing activities	18,687	7,338
Net decrease in cash and cash equivalents	(9,471)	(2,248)
Cash and cash equivalents, beginning of year	78,333	80,581
Cash and cash equivalents, end of year	$68,862	$78,333
Reconciliation of cash and equivalents to balance sheet:		
Cash and cash equivalents restricted for long-term purposes	$15,623	$ -
Cash and cash equivalents, including restricted amounts	53,239	78,333
	$68,862	$78,333

	2007	2006
Adjustment to reconcile operating income to net cash provided by operations:		
Operating income	$25,824	$32,761
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	27,854	23,126
Change in fair value of derivative financial instruments	2,357	(627)
Other	3,233	3,946
Other changes in operating assets and liabilities:		
Accounts receivable	(6,377)	(4,144)
Materials and supplies	(786)	1
Prepaid expenses and other current assets	397	3,920
Regulatory assets and credits	(7,585)	2,875
Power purchases payable	714	(2,181)
Accounts payable and accrued expenses	(2,664)	5,648
Accrued salaries, wages and related benefits	2,064	(451)
Customer deposits and advances	170	(668)
Affiliate obligation	(1,147)	(3,009)
Net cash provided by operating activities	$44,054	$61,197
Supplemental non-cash investing and financing activities:		
Accounts payable related to construction of capital assets	$3,270	$ -

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(dollars in thousands)

1. Organization and Description of Business

The Turlock Irrigation District (the "District") was organized under the Wright Act in 1887 and operates under the provisions of the California Water Code as a special district of the State of California. As a public power utility, the District is not subject to regulation or oversight by the California Public Utilities Commission (CPUC). The District provides electric power and irrigation water to its customers.

The District's Board of Directors (the "Board") determines its rates and charges for its commodities and services. The District levies ad valorem property taxes on property located in the counties of Stanislaus and Merced. The District may also incur indebtedness, including issuing bonds, and is exempt from payment of federal and state income taxes.

2. Summary of Significant Accounting Policies

Method of Accounting

The District maintains its accounts in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB), and where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). The District is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The District uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. 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), except as it relates to the accounting for contributions in aid of construction (CIAC).

Component Unit

The Walnut Energy Center Authority (the "Authority") owns and operates a 250 MW natural gas fueled generation facility, which achieved commercial operations on February 28, 2006. Although the Authority is a separate legal entity from the District, it is blended into and reported as part of the District because of the extent of its operational and financial relationship with the District. Accordingly, all operations of the Authority are consolidated into the District's financial statements.

Use of Estimates

The preparation 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.

Utility Plant

Utility plant is recorded at cost. The cost of additions, renewals and betterments are capitalized; repairs and minor replacements are charged to operating expenses as incurred. Interest and related financing costs are capitalized as a component of major utility plant development projects. The District capitalized $805 and $2,155 of interest during 2007 and 2006, respectively.

Included in utility plant are costs related to emission credits acquired that may be necessary to operate the gas fired facility. Such credits have an indeterminate life and are therefore, not amortized.

Depreciation is computed using the straight-line method over the estimated useful lives, which generally range from 20 to 40 years and 40 to 150 years for electric and irrigation related assets, respectively. The estimated useful lives of furniture, fixtures, equipment and other assets range from 5 to 25 years. Upon retirement, the cost of depreciable utility plant, plus removal costs, less salvage, is charged to accumulated depreciation.

Future power rights are costs incurred by the District in development of hydroelectric facilities owned by others who provide power to the District. Such costs are recorded as a component of utility plant and are being amortized on a straight-line basis over the 49-year periods to which these rights apply.

Investments in Gas Properties

In July 2005, the District acquired an approximate 4.5 percent non-operating ownership interest in gas producing properties located near Pinedale, Wyoming for $34.6 million. In October 2006, the District acquired an approximate 6.7 percent non-operating ownership interest in gas producing properties located near Fort Worth, Texas for $37.2 million.

The District uses the successful efforts method of accounting for its investments in gas producing properties. Costs to drill and complete wells that access economically recoverable reserves are capitalized as a component of utility plant on the balance sheet. Costs to drill wells that do not find economically recoverable reserves are expensed. The capitalized costs of producing gas properties, after considering estimated residual salvage values, are depleted by the unit-of-production method based on the estimated future production of proved reserves through the year 2034.

Gas production from the District's share of these properties is sold to wholesale buyers as an economic hedge to offset the net cost of the District's gas supply costs. Sales of gas in 2007 and 2006 totaled $9,356 and $9,965, respectively. Depletion expense, which is included as a component of depreciation expense in the accompanying statement of revenues, expenses and changes in net assets, totaled $2,904 and $2,105 in 2007 and 2006.

Cash, Cash Equivalents and Investments

Cash equivalents include all debt instruments with original maturity dates of three months or less from the date of purchase and all investments in the California Asset Management Program (CAMP) and the Local Agency Investment Fund (LAIF). The debt instruments are reported at amortized cost which approximates fair value and the CAMP and LAIF are reported at the value of their pool shares. CAMP is a joint powers authority and public agency whose investments are limited to those permitted by the California Government Code. Investments in CAMP shares are not insured by the Federal Deposit Insurance Corporation or any other governmental agency. LAIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA cash and investments are recorded at amortized cost which approximates market. The District's deposits with CAMP and LAIF are generally available for withdrawal on demand.

All investments are carried at their fair market value, generally based on market prices quoted by dealers for those or similar investments. Investment income includes both realized gains and losses and unrealized changes in the fair market value of investments, unless deferred as a regulatory asset or credit.

In accordance with provisions of the credit agreements relating to the District's long-term debt obligations, restricted funds held by trustees have been established to provide for certain debt service and project funding requirements. The restricted funds held by trustees are invested primarily in United States (U.S.) government securities and related instruments with maturities no later than the expected date of the use of such funds.

Participation in Joint Power Authorities

The District's ownership investments in joint power authorities (JPAs), all representing less than 20% ownership interests except for the Authority, are accounted for using the cost method.

Debt Issuance Costs

Costs incurred in connection with the issuance of debt obligations, principally underwriters' and legal fees, are deferred on the balance sheet as debt issuance costs and are amortized, as a component of interest expense, over the terms of the related obligations using the effective interest method.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable arise from billings to customers for the sale of power and water, and certain improvements made to customers' properties. Accounts receivable also includes an estimate for unbilled revenues related to power delivered between the last billing and the last day of the reporting period.

The District recognizes an estimate of uncollectible accounts for its retail and wholesale receivables based upon its historical experience with collections and current market conditions. At December 31, 2007 and 2006, the allowance for doubtful accounts relating to retail electric receivables totaled $264 and $215, respectively. At December 31, 2007 and 2006, the allowance on the wholesale receivables of $3,820 relates primarily to collectibility issues resulting from the uncertain California wholesale energy markets. The District records bad debt expense related to electric service and wholesale activities as administration and general in the statements of revenues, expenses and changes in net assets. In 2007 and 2006, bad debt expense relating to uncollectible accounts receivable was $372 and $251, respectively.

Materials and Supplies

Materials and supplies are used in the District's operations and are recorded at average cost, net of reserves for obsolete items. Reserves for obsolete items totaled $301 at December 31, 2007 and 2006.

Long-term Debt

Long-term debt is recorded at the principal amounts of the obligations adjusted for original issue discounts and premiums. The premiums and discounts on bonds issued are amortized over the terms of the bonds using the effective interest method as a component of interest expense.

Debt defeasance charges result from debt refunding transactions and comprise the difference between the reacquisition costs and the net outstanding debt balances including deferred costs of the defeased debt at the date of the defeasance transaction. Such charges are included as a component of long-term debt and amortized as a component of interest expense over the shorter of the life of the refunded debt or the new debt, using the effective interest method.

Long-term Lease Obligation

In connection with completing the Walnut Energy Center, the District entered into a long-term transmission arrangement with Pacific Gas and Electric (PG&E) which included PG&E constructing new, and reinforcing existing natural gas transmission facilities. The arrangement represents, in substance, a capital lease wherein the District (lessee) is obligated to repay all costs associated with the construction and reinforcement of the transmission facilities to PG&E through billings on transmission usage. As such, the District records its obligation to PG&E as a long-term lease obligation and the associated assets in utility plant in accordance with Statement of Financial Accounting Standard No. 13, *Accounting for Leases*, as amended. Contract terms include an up-front payment of $1,600 plus an irrevocable payment obligation which totals $13,800 on a net present value basis to be paid over a ten year period with the amounts due within one year classified as current.

The lease obligation is included in the District's balance sheet at December 31, 2007 and 2006 with a balance of $10,557 and $11,634, respectively, along with the related assets with a net book value of $12,639 and $15,000, respectively, in utility plant.

Deferred Regulatory Asset and Credits

The District's Board has the authority to establish the level of rates charged for all District services. As a regulated entity, the District's financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, which requires the effects of the rate making process be recorded in the financial statements. Accordingly, certain expenses and income, normally reflected in operations as incurred, are recognized when included in rates and recovered from or refunded to customers as set forth in rate actions taken by the Board.

Self-insurance Liability

Substantially all of the District's assets are insured against possible losses from fire and other risks. The District carries insurance coverage to cover general liability claims in excess of $1,000 per occurrence, worker's compensation claims in excess of $750 per occurrence and medical claims in excess of $125 per employee and covered retiree. The District also has liability insurance for general claims in excess of $35,000. The District records liabilities for unpaid claims when they are probable of occurrence and the amount can be reasonably estimated. The accompanying financial statements include accrued expenses for general liability, workers' compensation and medical, dental and vision claims based on the District's best estimates of the ultimate cost of settling outstanding claims and claims incurred, but not reported. At December 31, 2007 and 2006, the District's estimated self-insurance liability totaled $3,260 and $3,909, respectively, and is reported as a component of accounts payable and accrued expenses in the consolidated balance sheets.

Gas Price Swap and Option Agreements

The District uses forward purchase agreements, swaps and option agreements to hedge the impact of market volatility on gas prices for its gas fueled power plants. Expenses under the contracts, net of the payments received, are reported as a component of generation and fuel expense, in the period in which the underlying gas and power deliveries occur.

Derivative Financial Instruments

The District records derivative financial instruments, consisting of gas swap price agreements, option agreements, and gas and electricity purchase and sales agreements that are not treated as normal purchases and normal sales, at fair value on its balance sheets with the corresponding entry recorded in the consolidated statements of revenues, expenses and changes in net assets. The fair values of gas price swap and option agreements are based on forward prices from established indexes for the applicable regions. The fair values of gas and electricity purchase and sales agreements are based on forward prices from established indexes from applicable regions and discounted using established interest rate indexes, where applicable. While the District does not enter into agreements for trading purposes, it does not apply hedging accounting to these agreements. Therefore, the changes in derivative financial instruments are recorded as a component of generation and fuel expense.

The District reports derivative financial instruments with remaining maturities of one year or less and the portion of long-term contracts with scheduled transactions over the next twelve months as current on the consolidated balance sheets. The District is exposed to risk of nonperformance if the counterparties default or if the agreements are terminated. The District monitors these risks and does not anticipate nonperformance.

Net Assets

The District classifies its net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses and unspent debt proceeds.

Restricted – This component consists of net assets with external constraints placed on their use. Constraints include those imposed by debt indentures, grants or laws and regulations of other governments, by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Board Designated Net Assets

Net assets include amounts that the District's Board designates as reserves for debt service, capital improvements and rate stabilization. The rate stabilization fund represents amounts reserved for the purpose of stabilizing electric utility rates in future periods. The Board determines the annual transfers into and out of these reserves. While the Board designates these funds as reserve funds, they are not restricted and the Board can utilize such funds for any purpose.

The designated funds included in net assets were as follows at December 31:

	2007	2006
Rate stabilization	$34,076	$34,076
Debt service	18,175	17,634
Capital improvements	12,791	12,791
	$65,042	$64,501

Purchased Power Expenses

A portion of the District's power needs are provided by power purchase agreements. Expenses from such agreements, along with associated transmission costs paid to other utilities, are charged to purchased power expense in the period the power was received. Adjustments to prior billings are included in purchased power expense once the payments or adjustments can be reasonably estimated. 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.

Contributions in Aid of Construction and Grants

The District receives contributions in aid of construction (CIAC) for customer contributions relating to expansions to the District's distribution facilities. The District also receives grant proceeds from federal and state assisted programs for its river restoration programs and other programs. The contributions and grant proceeds are included in other income in the accompanying financial statements. When applicable, these programs may be subject to financial and compliance audits pursuant to regulatory requirements, although the District considers the possibility of any material grant disallowances to be remote.

Asset Retirement Obligations

The District accounts for potential asset retirement obligations in accordance with Statement of Financial Accounting Standards No. 143 (SFAS 143), *Accounting for Asset Retirement Obligations*, which sets forth accounting requirements for the recognition and measurement of liabilities for legal obligations associated with the retirement of tangible long-lived assets. Under SFAS 143, an obligation is recorded only when legally binding retirement obligations exist under enacted laws, statutes, written contracts or oral contracts, including obligations arising under the doctrine of promissory estoppel. Under this statement, asset retirement obligations (AROs) are recognized at fair value as incurred and capitalized as a component of the cost of the related tangible long-lived assets.

The District has identified potential retirement obligations related to certain generation, transmission and distribution facilities located on properties that do not have perpetual leases. The District's nonperpetual leased land rights generally are renewed leases.

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, no liability has been recorded at December 31, 2007 or 2006, respectively.

Recent Accounting Pronouncements

Effective for the year ending December 31, 2008, the District will be required to implement Governmental Accounting Standards Board Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning. If any one of five specified obligating events occurs, the District will be required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The District is currently assessing the new statement.

In June 2007, GASB issued SGAS No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51). GASB 51 provides guidance regarding how to identify, account for and report intangible assets. Intangible assets are defined as assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. GASB 51 provides that intangible assets be classified as capital assets, except for items explicitly excluded from the scope of the standard. This statement is effective for the District beginning in 2010. The District is currently assessing the financial statement impact of adopting the new statement.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FASB 157). FASB 157 provides guidance for using fair value to measure assets and liabilities. The statement clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. The statement also establishes a fair value hierarchy that prioritizes the information used to develop these assumptions. This statement is effective for the District beginning in 2008. The District is currently assessing the financial statement impact of adopting the new statement.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation, with no effect on consolidated increase in net assets or capitalization.

3. Utility Plant

The summarized activity of the District's utility plant during 2007 is presented below:

	Balance December 31 2006	Additions	Transfers & Disposals	Balance December 31 2007
Nondepreciable utility plant				
Land	$25,156	-	$230	$25,386
Emission credits	5,732	-		5,732
Construction in progress	10,848	58,642	(34,991)	34,499
Total nondepreciable utility plant	41,736	58,642	(34,761)	65,617
Depreciable utility plant				
Generation	379,673	-	3,389	383,062
Distribution	226,034	-	13,912	239,946
Transmission	68,134	-	8,587	76,721
General	57,488	-	2,833	60,321
Future power rights	26,297	-	129	26,426
Irrigation	47,019	-	3,230	50,249
Investment in gas properties	76,301	10,876	-	87,177
Total depreciable utility plant	880,946	10,876	32,080	923,902
Less: accumulated depreciation, amortization and depletion	(220,809)	(27,854)	2,659	(246,004)
Depreciable utility plant, net	660,137	(16,978)	34,739	677,898
Utility plant, net	$701,873	$41,664	$(22)	$743,515

The summarized activity of the District's utility plant during 2006 is presented below:

	Balance December 31 2005	Additions	Transfers & Disposals	Balance December 31 2006
Nondepreciable utility plant				
Land	$20,718	-	$4,438	$25,156
Emission credits	-	-	5,732	5,732
Construction in progress	230,371	79,993	(299,516)	10,848
Total nondepreciable utility plant	251,089	79,993	(289,346)	41,736
Depreciable utility plant				
Generation	173,223	-	206,450	379,673
Distribution	198,803	-	27,231	226,034
Transmission	52,894	13,871	1,369	68,134
General	50,642	-	6,846	57,488
Future Power Rights	25,769	-	528	26,297
Irrigation	45,505	-	1,514	47,019
Investment in gas properties	34,646	-	41,655	76,301
Total depreciable utility plant	581,482	13,871	285,593	880,946
Less: accumulated depreciation, amortization and depletion	(200,130)	(23,126)	2,447	(220,809)
Depreciable utility plant, net	381,352	(9,255)	288,040	660,137
Utility plant, net	$632,441	$70,738	$(1,306)	$701,873

Development Project

In 2002, the District began active development of the Walnut Energy Center power plant (the "Project"), a 250 MW natural gas fueled generation facility. The Project achieved commercial operation on February 28, 2006. In 2006, construction and development costs related to the Project totaling $217,554 were transferred from Construction in Progress to Utility Plant.

4. Participation in Joint Powers Agencies

Transmission Agency of Northern California

The District is a member of the Transmission Agency of Northern California (TANC), a JPA consisting of fifteen municipal utilities. TANC is a participant, with a 79.3% share of the California-Oregon Transmission Project (COTP) and other facilities for electric power transmission. TANC develops, operates and manages these projects. The COTP provides electric transmission between the Pacific Northwest and California. The District has a 12.4% entitlement share of TANC's portion of the COTP and other facilities, which provide the District with 154 megawatts (MW) of transmission during normal operating conditions. The District also has a 6.3% entitlement share of TANC's transmission under the South of Tesla transmission agreements, which provide the District with 19 MW of transmission during normal operating conditions between Tesla and Midway.

Under the TANC agreements, the District is responsible for TANC's development, operating and debt service costs on a take-or-pay basis proportionate to its entitlement share. During 2007 and 2006, the District's total expenses in connection with its TANC agreements, included in purchased power expense, totaled $5,336 and $4,559, respectively. At December 31, 2007 and 2006, the District has an affiliate obligation payable to TANC of $3,246 and $4,393, respectively, relating to certain non-cash expenses and other cumulative differences between expenses recognized for accounting purposes and cash payments made to the Agency.

Northern California Power Agency

The District is a member of the NCPA, a JPA consisting of seventeen member agencies. NCPA develops and operates projects for the generation and transmission of electric power.

The District has a 6.3% entitlement share in the capacity and energy from NCPA Geothermal Plants l and 2 (the "Geothermal Project"). The District is responsible for development, operating and debt service costs on a take-or-pay basis in proportion to its entitlement share. The District's expenses relating to the Geothermal Project, included in purchased power expense, were $3,491 and $3,347 in 2007 and 2006, respectively. At December 31, 2007 and 2006, the District has prepaid expenses related to the Geothermal Project to NCPA of $990 and $822, respectively, which is included in prepaid expenses and other current assets on the balance sheets.

The Geothermal Project continues to experience lower than expected steam production from the geothermal wells on its leasehold properties. Therefore, NCPA operates the facility at lower output levels than originally planned, which increases the cost of power per unit. Although the cost of power from the Geothermal Project is higher than that supplied from other sources, the District is obligated to pay its contractual take-or-pay obligations under its agreement with NCPA until they are fully satisfied, regardless of resulting cost or availability of energy. Management plans to continue to include the Geothermal Project in its long-term resource plan and, as such, its related costs are fully recoverable in the District's rates.

As described in note 12, the District purchases natural gas and pays related transmission costs to NCPA for delivery of natural gas to some of the District's natural gas fired power plants. Such natural gas purchases and transmission expenses amounted to $4,822 and $11,421 for the years ended December 31, 2007 and 2006, respectively, included in generation and fuel expenses on the consolidated statements of revenues, expenses and changes in net assets.

Financial Summary of NCPA and TANC

The combined summarized financial information of NCPA and TANC is as follows at December 31:

	2007 (unaudited)	2006 (unaudited)
Total assets	$1,288,554	$1,318,842
Total liabilities	$1,262,631	$1,289,043
Total net assets	25,923	29,799
	$1,288,554	$1,318,842
Excess of revenues over expenses for the year	$3,220	$22,224

The long-term debt of TANC and NCPA is collateralized by a pledge and assignment of net revenues of each JPA, supported by the take-or-pay commitments of the District and other members. As such, the District is contingently obligated for its proportionate share of TANC's liabilities of $434,224 and NCPA's debt related to the Geothermal Project of $340,310 at December 31, 2007. Should other members of TANC and NCPA default on their obligations to these JPAs, the District would be required to make "step up" payments, up to 25% of its proportionate share, to cover a portion of the defaulted payments and would be entitled to the same proportion of additional power production or transmission.

Walnut Energy Center Authority

The District and Merced Irrigation District formed the Walnut Energy Center Authority (Authority) for the principle purpose of owning and operating a 250 MW natural gas fueled generation facility that is blended into and reported as a component unit of the District. The Authority's financial information is summarized as follows:

Summarized Balance Sheets	2007	2006
Current assets	$3,579	$8,075
Noncurrent assets	283,431	281,360
Total assets	$287,010	$289,435
Current liabilities	$80,058	$82,128
Long-term debt, net of current portion	206,952	207,307
Total liabilities	$287,010	$289,435
Summarized Statements of Revenues, Expenses and Changes in Net Assets		
Operating revenues	$95,829	$65,895
Operating expenses	83,249	56,377
Operating income	12,580	9,518
Nonoperating revenues and expenses, net	(12,580)	(9,518)
Changes in net assets	$ -	$ -

5. Cash, Cash Equivalents and Investments

The District's investment policies are governed by the California Government Codes and its Bond Indenture, which restricts the District's investment securities to obligations which are unconditionally guaranteed by the U.S. Government or its agencies or instrumentalities; direct and general obligations of the State of California (State) or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; time certificates of deposit; repurchase agreements; medium-term corporate notes; shares of beneficial interest; mortgage pass-through securities; and deposits with the Local Agency Investment Fund (LAIF) and California Asset Management Program (CAMP). Investments in CAMP and LAIF are unregistered, pooled funds.

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.

Credit Risk

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, the District limits investments to those rated, at a minimum, "A1" or equivalent for medium-term notes and "A" for commercial paper by a nationally recognized rating agency. The following schedules present the credit risk at December 31, 2007 and 2006. The credit ratings listed are from Standard and Poor's. NR means not rated and TSY refers to U.S. Treasury securities.

	Credit Rating	2007	2006
Cash and cash equivalents:			
Deposits	NR	$32,247	$33,795
Commercial Paper	NR	12	12
U.S. Treasury Notes	TSY	-	-
Fannie Mae	AAA	7,654	5,157
Repurchase Agreements	NR	7,508	5,398
Local Agency Investment Fund	NR	5,818	33,971
		53,239	78,333
Short-term investments:			
Corporate notes	AA-	1,418	-
U.S. Treasury Notes	TSY	6,539	-
		7,957	-
Cash and cash equivalents restricted for long-term purposes:			
California Asset Management Program	AAA	11,488	-
Local Agency Investment Fund	NR	4,135	-
		15,623	-
Long-term investments:			
Fannie Mae	AAA	42,666	57,553
U.S. Treasury Notes	TSY	10,519	26,854
Corporate notes	AAA, AA-, A+	15,078	4,214
		68,263	88,621
		$145,082	$166,954

The schedule below presents restricted and unrestricted balances of cash, cash equivalents and investments as of December 31, 2007 and 2006:

	2007	2006
General operating funds:		
Operating accounts	$28,566	$50,595
Funds designated for rate stabilization	55,200	55,200
Funds designated for capital improvements	12,791	12,791
	96,557	118,586
Restricted funds:		
Construction funds	12	12
Reserve funds	30,338	28,964
Debt service funds	18,175	17,634
Certificate of Participation reserve funds	-	1,758
	48,525	48,368
	$145,082	$166,954

Custodial Credit Risk

This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the District's deposits may not be returned or the District will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. The District does not have a deposit policy for custodial credit risk. At December 31, 2007 and 2006, deposits totaling $705 and $498, respectively, are insured by the Federal Deposit Insurance Corporation; cash, cash equivalents and investments, excluding the LAIF and CAMP, totaling $123,641 and $133,983, respectively, are collateralized with securities held by the pledging bank's trust department in the District's name; and investments in the LAIF and CAMP at December 31, 2007 and 2006, of $21,441 and $33,971, respectively, and were uninsured and uncollateralized.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The District places no limit on the amounts invested in any one issuer for federal agency securities, except for mortgage pass through securities which may not exceed 20% of the District's portfolio. The following are the concentrations of risk representing 5% or greater in either year:

Investment Type	2007	2006
LAIF	9%	26%
Fannie Mae	45%	47%
Repurchase Agreements	7%	4%
U.S. Treasury Notes	15%	20%
Corporate Notes	15%	3%
CAMP	9%	0%

Interest Rate Risk

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. Of the District's total portfolio at December 31, 2007 and 2006, all of the District's cash and cash equivalents have maturities of 90 days or less. The remaining investments mature between one to three years.

In accordance with provisions of the credit agreements relating to certain of the District's long-term debt obligations, restricted funds are maintained at levels set forth in the agreements to provide for debt service reserve and project funding requirements. These funds are held by trustees and are invested in U.S. Government securities and related instruments with maturities no later than the expected date of the use of the funds.

6. Long-term Debt

Long-term debt consists of the following at December 31:

	2007	2006
Revenue bonds, fixed interest rates of 3.0% to 6.25%, maturing through 2034	$263,100	$271,485
Revenue bonds, variable interest rates, maturing through 2034	65,660	66,415
Certificates of participation, fixed interest rates of 4.5% to 5.0%, maturing through 2033	26,785	26,785
Certificates of participation, variable interest rates maturing through 2031	35,600	36,500
Total long-term debt outstanding	391,145	401,185
Less:		
Current portion	(10,775)	(10,040)
Unamortized premiums and discounts, net	7,673	8,255
Deferred losses on bond refundings, net	(4,092)	(4,672)
Total long-term debt, net	$383,951	$394,728

The summarized activity of the District's long-term debt during 2007 and 2006 is presented below:

	December 31 2006	Payments & amortization	December 31 2007
Revenue bonds	$337,900	(9,140)	$328,760
Certificates of participation	63,285	(900)	62,385
Total	401,185	(10,040)	391,145
Less:			
Unamortized premiums and (discounts), net	8,255	(582)	7,673
Deferred losses on bond refundings, net	(4,672)	580	(4,092)
Total long-term debt, net	$404,768	$(10,042)	$394,726

	December 31 2005	Payments & amortization	December 31 2006
Revenue bonds	$344,360	(6,460)	337,900
Certificates of participation	64,185	(900)	63,285
Total	408,545	(7,360)	401,185
Less:			
Unamortized premiums and (discounts), net	8,872	(617)	8,255
Deferred losses on bond refundings, net	(5,310)	638	(4,672)
Total long-term debt, net	$412,107	$(7,339)	$404,768

Variable Rate Debt

Certain of the District's variable rate revenue bonds bear interest at weekly auction rates, 4.00% at December 31, 2007. The District can elect to change the interest rate period or fix the interest rate, with certain limitations. In the event of a failed auction, the interest rate resets to a maximum rate of 12%. There have been no failed auctions to date. The District's remaining variable rate revenue bonds and certificates of participation bear interest at daily, weekly and monthly rates, ranging from 3.20% to 3.36% at December 31, 2007.

The District has two letters of credit totaling $42,960 with a bank, which expire in April 2011. These facilities provide liquidity support for a portion of the District's variable rate revenue bonds and all of the District's variable rate Certificates of Participation (COPs).

General

The COPs and District revenue bonds are collateralized by a pledge of, and a lien on, the revenues of the electric system after deducting maintenance and operation costs, as defined in the bond resolutions. The District's bond resolutions contain various covenants that include requirements to maintain minimum debt service coverage ratios, certain financial ratios, stipulated minimum funding of revenue bond reserves, and various other requirements.

Authority revenue bonds are part of the consolidated debt structure for financial statement purposes. The debt service that is a result of these bonds is part of the cost of power paid by the District to the Authority.

The District has a surety bond of $4,102 with a bank, in lieu of funding reserve fund requirements for certain revenue bonds, as allowed by the bond resolution. The surety bond expires concurrent with the related revenue bonds. No amounts have been drawn on the surety bond to date.

Variable rate bonds totaling $65,660 may be subject to redemption by the District at any interest date without a premium or discount. Fixed rate revenue bonds totaling $56,370 may be subject to redemption by the District in 2008 at a premium of 2%. Additionally, fixed rate revenue bonds totaling $23,705 and $125,410 may be subject to redemption during 2013 and 2014, respectively, by the District without a premium or discount. COPs totaling $26,785 may be subject to redemption by the District at any interest date without a premium or discount. Additionally, COPs totaling $36,500 may be subject to redemption by the District during 2013 without a premium or discount.

The District's scheduled future annual principal maturities and estimated interest are as follows at December 31, 2007:

	Principal	Estimated Interest	Total
2008	$10,775	$17,980	$28,755
2009	11,215	17,401	28,616
2010	12,480	16,749	29,229
2011	15,520	16,290	31,810
2012	15,140	15,466	30,606
2013-2017	67,795	68,918	136,713
2018-2022	75,965	52,288	128,253
2023-2027	80,505	34,174	114,679
2028-2032	73,030	17,312	90,342
2033-2034	28,720	1,996	30,716
	$391,145	$258,574	$649,719

The District used the interest rates in effect as of December 31, 2007, to estimate the future interest requirements for its variable rate debt, included in the table above.

At December 31, 2007 and 2006, the estimated fair values of the District's long-term debt, calculated by determining the net present value using appropriate maturity dates of future debt service payments discounted at the bond buyer's revenue bond index rate, are as follows:

	2007	2006
Carrying amount	$394,726	$404,768
Fair value	$380,297	$391,089

7. Commercial Paper

The District has two commercial paper programs, one established in December 2006 for various financing needs up to $100,000. The outstanding balance under this commercial paper program at December 31, 2007 and 2006 was $45,500 and $10,000, respectively. The effective interest rate for the notes outstanding December 31, 2007 and 2006 was 3.25% and 3.52%, respectively. The average term for these notes at December 31, 2007 and 2006 was 43 and 30 days, respectively. The District maintains a $108,876 letter of credit to support these notes and incurs an annual fee for this service. There has not been a term advance under the letter of credit.

The other commercial paper program is used to finance capital expenditures. At December 31, 2007 and 2006, the balance outstanding under the District's other commercial paper program was $73,920 and $76,050, respectively. The effective interest rate for the notes outstanding at December 31, 2007 and 2006 was 4.06% and 4.80%, respectively, and the average term at December 31, 2007 and 2006 was 49 and 48 days, respectively. A letter of credit of $87,200 supports the sale of these outstanding notes and the District incurs an annual fee for this service. There has not been a term advance under the letter of credit.

The consolidated activity of the District's commercial paper during 2007 and 2006 is presented below:

	2007	2006
Balance, beginning of year	$86,050	$52,569
Additions	36,170	36,096
Payments	(2,800)	(2,615)
Balance, end of year	$119,420	$86,050

8. Regulatory Deferrals

The District's Board has taken various regulatory actions that result in differences between recognition of revenues and expenses for rate-making purposes as reflected in these consolidated financial statements, and as incurred. These actions result in regulatory assets and credits.

Deferred Regulatory Assets

Deferred regulatory assets consist of the following at December 31:

	2007	2006
Westside facility costs	$ -	$148
Deferred power supply adjustment	9,122	-
Unrealized loss on investments	(825)	730
	$8,297	$878

Westside facility costs

Certain costs incurred in connection with the Westside facilities acquisition from PG&E in December 2003 were being recovered as part of a surcharge the District included in the rates collected from the Westside retail customers.

Power Supply Adjustment

The District's Rate Schedule PSA (Power Supply Adjustment) billing factor provides for an adjustment to the kilowatt-hour (KWh) portion of customer bills to reflect variations in the variable cost of purchased power, fuel used for generation of electric energy, and reduced by revenue from wholesale sales of energy to other entities. The PSA rate is reset semi-annually in June and December. The Board of Directors has limited reset amounts to ($0.005) to $0.01 per KWh. A balancing account is maintained in an amount by which the energy revenues collected from retail customers are less than (or more than) the actual cost of fuel and purchased power. Deficiencies (or excesses) in the balancing account are adjusted by increasing (or decreasing) the Power Supply Adjustment billing factor. On December 31, 2007, the deficiency in the balancing account was $9,122. On December 31, 2006, the excess in the balance account amounted to $650, which was included in accounts payable and accrued expenses on the consolidated balance sheet.

Unrealized Losses on Investments

The District defers unrealized holding gains and losses on its investments until such investments mature or are sold which is consistent with the District's rate setting process.

Deferred Regulatory Credits

Deferred regulatory credits consist of the following at December 31:

	2007	2006
Electric rate stabilization	$21,124	$21,124
Public benefit	5,222	5,388
	$26,346	$26,512

Electric Rate Stabilization

Prior to 2003, the District deferred interest earnings on net assets designated for electric rate stabilization. These amounts will be amortized as increases in retail revenues in future periods based on a rate program approved by the Board of Directors which releases rate stabilization amounts under identified circumstances.

Public Benefit

In February 2003, the District's Board identified a specific component of its rates, 2.85%, to be committed to public benefit expenditures. Public benefit expenditures consist of non-capital and capital expenditures for energy efficiency programs and renewable energy resources. The District recognizes a regulatory account for differences between revenue and expenditures.

9. Derivative Financial Instruments

The District enters into contracts for the purchase of electricity to meet the expected needs of its retail customers and for the purchase, transportation and storage of natural gas to meet its generation needs. The District also enters into hedging transactions to reduce the price volatility of some of these agreements. Certain of these contracts are classified as derivative financial instruments.

The fair values of the District's derivative financial instruments are as follows:

	December 31,	
	2007	2006
Derivative Financial Instrument Assets:		
Gas related contracts	$1,979	$3,653
Electric related contracts	2,694	6,133
Total derivative financial instruments	4,673	9,786
Less current portion	(3,765)	(8,911)
	$908	$875
Derivative Financial Instrument Liabilities:		
Gas related contracts	$2,691	$5,266
Electric related contracts	408	589
Total derivative financial instruments	3,099	5,855
Less current portion	(2,823)	(5,844)
	$276	$11

10. Pension Plan

The District has a single-employer group defined benefit pension plan (the "Retirement Plan") which provides retirement benefits covering substantially all its employees who have completed one year of continuous service. Employees may retire after age 55 with benefits based on compensation and years of service to actual retirement date. The Retirement Plan also provides death benefits for those employees having reached age 55.

The District, through the action of its Board may amend or establish Retirement Plan provisions. The Board has appointed third parties to carry out substantially all administrative responsibilities, including custody of the Retirement Plan assets and as a result, excludes the pension trust funds from these financial statements. The Retirement Plan is a governmental plan under section 414(d) of the Internal Revenue Code (IRC). Copies of the Retirement Plan's annual financial report may be obtained from the District's executive office at 333 East Canal Drive, Turlock, California 95381. The Retirement Plan's annual financial report is the responsibility of the District. PricewaterhouseCoopers LLP (PwC) has not audited or examined any information in the annual financial report. Accordingly, PwC does not express an opinion or any other form of assurance with respect thereto.

Funding Policy

To participate in the Retirement Plan, employees who are not members of a bargaining unit are required to contribute 1.25% of their earnings and employees who are members of a bargaining unit are required to contribute 2.25% of their earnings. Under the Retirement Plan provisions established by the Board, the Retirement Plan is to be funded in amounts equal to the normal costs of the Retirement Plan plus an amortization of the past service liability. Contributions made by the employees' vest immediately. Contributions made by the District are fully vested after five years of participation.

Annual Pension Cost

The annual required contributions for 2007 and 2006 were determined by actuarial valuations using the frozen entry age actuarial cost method. The actuarial assumptions included the following for 2007 and 2006:

- Investment rate of return applied to assets of 8.5% per year;
- Discount rate applied to the pension benefit obligation of 8.5% per year;
- Salary increases of 4.5% per year; and
- Cost of living adjustment of 3.5% per year.

Realized and unrealized gains are phased in to the actuarial value of Retirement Plan assets over a three year period, and may be adjusted so that the actuarial value of Retirement Plan assets are not less than 80% or more than 120% of the fair market value of the Retirement Plan's assets as of the current valuation date. The unfunded actuarial accrued liability is being amortized as a portion of annual pension cost.

The District's annual pension cost and net pension obligation for 2007 and 2006, based on valuations as of December 31, 2007 and 2006, respectively, are as follows:

	2007	2006
Annual required contribution	$6,002	$6,005
Interest on net pension obligation	33	75
Adjustment to annual required contribution	(47)	(104)
Annual pension cost	5,988	5,976
Contributions made	6,995	6,471
Decrease in net pension obligation	(1,007)	(495)
Net pension obligation, beginning of period	390	885
Net pension (prepaid balance) obligation, end of period	$(617)	$390

Summarized Historical Trend Information

Three year trend information is presented below:

The supplemental schedule of funding progress is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/07	$128,028	$154,223	$26,195	83.0%	$30,327	86.4%
12/31/06	$116,104	$142,708	$26,604	81.4%	$27,728	95.9%
12/31/05	$102,136	$132,592	$30,456	77.0%	$25,508	119.4%

Deferred Compensation Plan

In addition, the District offers its employees a deferred compensation plan (the "Deferred Plan"), which provides employees the option to defer part of their compensation until termination, retirement, death, or unforeseeable emergency. The District makes no contribution to the Deferred Plan. The District has the duty of reasonable care in the selection of investment alternatives, but neither the District nor its directors or officers have any liability for losses under the Deferred Plan. The District holds all deferred compensation assets in the name of the Deferred Plan, and accordingly, the Deferred Plan assets and corresponding liability are not recorded in the accounts of the District.

11. Other Post Employment Benefits

In 2007, the District adopted SGAS No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions* (OPEB), which establishes standards of accounting and financial reporting for OPEB expense and related OPEB liabilities or assets. OPEB arises from an exchange of salaries and benefits for employee services rendered. The District considers post employment healthcare benefits to be OPEB costs.

The District provides post-retirement medical benefits in accordance with District policy to qualified retirees and their spouses through the District's Employee Health Care Plan (the "Health Plan") until the retiree and participating spouse reach age 65. The Health Plan is a single-employer group, for which the District is the administrator and through the action of its Board may amend or establish Health Plan provisions. The qualification requirements for these benefits are the same as those under the District's Retirement Plan. The Board has appointed third parties to carry out certain administrative responsibilities. The District contributes the full cost of coverage for retirees; however, retirees contribute the estimated health care cost of dependents. However, at the time of retirement an employee may utilize the remaining balance of unused sick leave, at the rate defined in the employee's applicable employee contract for one month's medical coverage for an eligible dependent. Covered retirees are also responsible for personal deductibles and co-payments. Currently, 83 retirees and surviving spouses are receiving post-employment health care benefits.

Funding Policy

During 2007 and 2006, the District recorded contributions for post-retirement health care benefits based on when payment was made. During 2007 and 2006, the District's post-retirement health care benefit contributions were $700 and $973, respectively, net of premiums received from retirees for eligible dependents. As of December 31, 2007, the District had not established an irrevocable trust or designated a trustee for the payment of plan benefits. As such there is no separately issued report of the Plan. The funding policy is currently pay-as-you-go. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as actuarially determined bi-annually.

Funding Status and Funding Progress

At December 31, 2007, the actuarially determined accumulated post-retirement health care obligation was approximately $19,000. There were no assets as of December 31, 2007 and therefore the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is $30,838. The ratio of unfunded actuarially accrued liabilities (UAAL) to covered payroll is approximately 52%.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (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 45. 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 a period not to exceed thirty years. For the year ended December 31, 2007, The District's annual OPEB Cost (expense) of $1,567 was equal to the ARC. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

	2007
Annual required contribution	$1,567
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	1,567
Contributions made	700
Increase in net OPEB obligation	867
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	$867

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended 2007 is as follows:

Fiscal Period Ending	Annual OPEB Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation
12/31/07	$1,567	45%	$867

Actuarial Methods and Assumptions

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

In the January 1, 2007, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.75 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. The UAAL is being amortized as a level percentage of projected payroll basis. The remaining amortization period at December 31, 2007, was twenty-nine years.

12. Commitments

Power Sales Agreement

The District has a power sales agreement with Merced Irrigation District (MeID) to sell power on a full requirements basis of all the energy and capacity that MeID uses to provide electric service to its retail customers over and above MeID's Base Supply ("Electric System Requirement") which expires in 2009. The District receives an energy payment based on a formula, as defined in the agreement, based in part on a California power price index. The District also receives a capacity payment based on a formula, as defined in the agreement. Sales under this agreement totaled $30,961 and $23,497 in 2007 and 2006, respectively.

Power Purchase Agreements

The District has two long-term power purchase agreements with other power producers to purchase capacity and associated energy to meet its load requirements, which expire through December 2024. Capacity and certain energy is purchased on a take-or-pay basis. Power purchased under these agreements totaled $18,816 and $17,872 in 2007 and 2006, respectively.

City and County of San Francisco

The District and the City and County of San Francisco (CCSF) have a power sales agreement which allocates a share of excess Hetch Hetchy Project capacity and energy to the District, through 2015. The District purchased $6,338 and $11,589 of power in 2007 and 2006, respectively, under the CCSF agreement.

Gas Purchase Agreements

The District has two long-term natural gas supply agreements with two companies to meet the consumption need of its natural gas fired power plants, which expire through January 2011. The District can purchase up to 27,000 million British Thermal Units (MMBtu) per day from NCPA (see note 4); the other contract is with another counterparty, which allows for the purchase of all required natural gas for the Walnut Energy Center not to exceed 55,000 MMBtu per day. Pricing for both contracts are indexed to certain natural gas indexes, as defined in the gas purchase agreements. Fuel purchased under both agreements totaled $47,218 and $45,540 in 2007 and 2006, respectively.

Gas Transportation Capacity and Storage Agreements

The District has nine long-term gas transportation capacity agreements and one long-term gas storage agreement with Canadian and U.S. companies to transport natural gas to the District's natural gas fired power plants from gas supply basins in Alberta, Canada. The gas transportation capacity agreements complement the District's gas purchase agreements, described above, but expire in years 2009 through 2033. Payments under these agreements totaled $3,696 and $2,822 in 2007 and 2006, respectively.

The approximate future minimum obligations for the above described power purchase, gas supply, and gas transportation and storage contracts are as follows at December 31, 2007:

	Amount
2008	$21,864
2009	22,096
2010	22,061
2011	22,276
2012	22,102
Thereafter	162,874
	$273,273

13. Contingencies and Settlements

California Energy Market Refund Proceedings

In July 2001, FERC issued an order establishing evidentiary hearings for the purpose of determining the amount of refunds, if any, due to customers of the California ISO and PX organized spot markets from market participants selling into those markets for the period October 2, 2000 through June 20, 2001 (the refund period). During this time period, the District was both a seller and a buyer in the markets. The Administrative Law Judge (ALJ) assigned to the proceedings, among other issues, addressed the calculation of refunds and identification of the amount currently owed to each supplier (with separate quantities due from each entity) by the California ISO, the investor owned utilities, and the State of California. In December 2002, the ALJ issued his Certification of Proposed Findings (the "Findings") and found that the District owes $1,243 in refunds for these sales. In March 2003, FERC revised its ruling to include the impact of gas price mitigation to be applied to sales into the California ISO and PX market retroactively. In July 2004, the California ISO completed the calculation of revised Mitigated Market Clearing Prices (MMCPs) for the refund period using the methodology that had been developed by the administrative process at FERC, including mitigated gas pricing. The District's potential refund liability under the MMCPs increased to approximately $3,600.

On September 6, 2005 the Ninth Circuit Court of Appeals issued its decision regarding FERC's authority regarding the imposing of refunds on non public utilities. The Court concluded that FERC does not have authority over non public authorities making sales in wholesales energy markets. The California Parties petitioned the US Supreme Court for review of the decision, but on December 10, 2007 were denied.

In any event, the District does not expect to be liable for any refunds because the District's final refund liability, if any, would likely not require a cash payment; rather it would probably be fully set off against amounts owed by the California ISO to the District of $4,340. The District has recorded an allowance of $3,820 against the amount owed by the California ISO related to the uncertainty of the ultimate amount that it will collect. The District believes such allowance is sufficient to cover its refund obligation, if any, and accordingly, no liability has been recorded.

California Parties vs. Government Entities Complaint for Damages for 2000 and 2001 Power Sales

Following the 9th Circuit Court of Appeals ruling that FERC could not order refunds in the California Refund proceeding, the District and other publicly owned utilities were sued in U.S. District Court on March 16, 2006, by Pacific Gas and Electric Company, California Edison Company and California Electricity Oversight Board and on March 21, 2006, by San Diego Gas & Electric (collectively the "California Parties"). In April 2007, the U.S. District dismissed the claims and the California Parties have appealed, which is still pending. Additionally, the California Parties filed a similar lawsuit in California Superior Court, which is currently in the discovery phase. The claims are for damages arising from sales of wholesale power and ancillary services from May 1, 2000 through June 20, 2001. No actual dollar damage amounts were cited in the complaints. The complaints state they are based upon the same facts as were included in the FERC and 9th Circuit Court cases. However, unlike the California Refund proceeding, the complaints extend the period in dispute back five months making the starting date May 1, 2000, instead of October 2, 2000. During the May 1, 2000 through October 1, 2000 the District made no sales to the California ISO. Thus, the transactions in dispute in the California Parties' Complaints are believed to be the same transactions in dispute in the California Refund proceeding before FERC. District management believes it is reasonably possible, but not probable, that the District will ultimately incur a liability in this matter due to the strength of its legal defenses and because these complaints are a result of the California parties' defeat in the 9th Circuit Court of Appeals and addresses the same issues raised in those proceedings. Consistent with the offsetting impacts of the receivables and potential liabilities described in the FERC-related proceeding described above, District management believes that any settlement would not involve cash outflows by the District. As such, no liability has been recorded.

Settlement of Dispute over Calpine Energy Services Contract

On December 22, 2000, the District entered into an 83-month Power Purchase Agreement ("Calpine PPA") with Calpine Energy Services, LP ("Calpine") to purchase up to 50 MW of Non-California ISO electricity beginning July 1, 2001. The Calpine PPA was originally to expire on May 31, 2008.

The Calpine PPA provided for discounts to the District when California ISO energy replaced Non-California ISO energy in excess of specified amounts. Between the execution of the Calpine PPA and the start of service, Calpine executed a Participating Generator Agreement with the California ISO and began scheduling all energy deliveries to the District with and through the California ISO.

As provided in the Calpine PPA and as permitted by applicable law, the District terminated the Calpine PPA for default as a result of Calpine's bankruptcy filing, effective January 24, 2006. In connection with the termination of the Calpine PPA, the District netted payments due the District under the Calpine PPA against pending invoices from Calpine, as provided in the Calpine PPA and a separate netting agreement between the parties. Specifically, the District did not pay Calpine's invoices for energy delivered in December 2005 of $3,289 and January 2006 of $2,132 under the Calpine PPA after netting them against larger sums owed by Calpine to the District under the Calpine PPA. Calpine disputed the District's right to terminate the Calpine PPA and expressed its disagreement that payments made by the District should be refunded. During 2006, Calpine was in intermittent contact with the District and did not made it clear whether or not they still intended to contest the termination of the PPA. The District did not record a liability for the disputed amounts since management believed it would prevail in asserting its contractual rights to offset any amounts due in accordance with applicable law and the netting provisions of the various agreements between the parties.

During 2007, the District settled with Calpine for $5,000 and a mutual release of all claims relating to the PPA. The $5,000 is included in purchased power expense in the consolidated statement of revenues and expenses and changes in net assets for the year ended December 31, 2007.

MMR vs. Turlock Irrigation District

In 2006, MMR, an electrical contractor, filed suit in Stanislaus County Superior Court to recover all costs incurred in completion of certain construction on the Walnut Energy Center project. The suit seeks payment of $5,300 from the District. The District does not dispute $900 for certain retentions and change orders, which has been included in accounts payable and accrued expenses in the consolidated balance sheet at December 31, 2007. The District disputes MMR's remaining claim which the District intends to vigorously oppose. The suit is currently in the discovery phase.

General Contingencies

In the normal course of operations, the District is party to various claims, legal actions and complaints, including possible liability for environmental matters. Although the ultimate outcome of these matters is not presently determinable, the District's management believes the resolution of all such pending matters will not have a material adverse effect on the District's financial position or results of operations.

2007 Board of Directors

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Revenue Bond Ratings

Moody's A1

Fitch A+

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Photography

Photographs on pages 6, 8, 10, 12, 14 are courtesy of photographer, Daniel Morrissey.

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