

**MERCED IRRIGATION DISTRICT**

---

**FINANCIAL STATEMENTS**

For the years ended December 31, 2011 and 2010



MERCED IRRIGATION DISTRICT

T A B L E O F C O N T E N T S

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statements of Net Assets .....	10
Statements of Revenues, Expenses and Changes in Fund Net Assets .....	12
Statements of Cash Flows.....	13
Notes to the Basic Financial Statements.....	15
Required Supplementary Information:	
Schedule of Funding Progress for the Postemployment Health Care Benefits .....	46
Schedule of Funding Progress for the Retiree Health Plan.....	46
Supplementary Information:	
Combining Statement of Net Assets.....	48
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets.....	52
Combining Statement of Cash Flows.....	54
2011 Debt Service Coverage Related to Outstanding COP and Bonds -	
Electric Services .....	58
2011 Debt Service Coverage Related to Outstanding COP and Bonds -	
Water Services .....	59



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Merced Irrigation District  
Merced, California

We have audited the accompanying basic financial statements of the Merced Irrigation District (the District) as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the District as of December 31 2010 were audited by other auditors whose report dated June 7, 2011, expressed an unqualified opinion on those statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining statements and debt service coverage calculations, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Burr Pilger Mayer, Inc.*

San Jose, California  
June 1, 2012





## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2011

Management's discussion and analysis of the Merced Irrigation District's (the District) financial performance provides an overview of the District's activities as well as its financial condition for the year ended December 31, 2011. The District's 2010 and 2009 financial results have been presented for purposes of providing comparative data. This discussion and analysis should be read in conjunction with the financial statements, including the notes to the financial statements, beginning on page 10.

The Statement of Net Assets presents assets and liabilities with the difference reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Assets provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The Statement of Revenue, Expenses, and Changes in Net Assets measures the success of the District's operations during the year and determines whether the District has recovered its costs through user fees and other charges, resulting in the changes in net assets.

The Statement of Cash Flows provides information about the District's cash receipts and cash payments resulting from operations, investing, and financing activities for the year.

### **Background**

The District was established to provide irrigation water to farms in the central portion of the San Joaquin Valley located around the city of Merced. The District was organized under the California Water Code in 1919. Today, the District is comprised of 5 major operational enterprises: Water Operations, Parks and Recreation, Hydroelectric Project, Electric Services, and Storm Drainage.

The District provides surface irrigation water to approximately 100,000 acres within its 164,000 acre boundary. In addition, the District partially serves agricultural lands outside its boundary along with portions of adjacent water districts, such as Le Grand Athlone Water District and Chowchilla Water District, but within its 420,000 acre sphere of influence (SOI), which encompasses all lands within the Merced Groundwater Basin located in the eastern part of Merced County, in addition to lands adjacent to its boundary north of the Merced River. The District also provides up to 26,400 acre feet of irrigation water to Stevenson Water District and 15,000 acre feet to Merced National Wildlife Refuge at no cost, both located westerly of the District. The District distributes water through 825 miles of earthen and concrete lined canals, and pipelines. The District also owns 220 well sites within its boundary, of which 170 wells are on standby and ready for use in dry years. In 2011, the District delivered 288,865 acre feet of irrigation water to approximately 1,900 fields farmed by 1,400 customers.

In addition to providing irrigation water, the District also uses portions of its existing irrigation distribution system for urban storm drainage by routing natural stream flows and runoff from urban developments, away from populated areas. The District formed the Merced Irrigation District Drainage District #1 (MIDDID#1) in 1994. At the end of 2011, there were approximately 17,730 residential, commercial, industrial, and government parcels located primarily within the urban area of the District that received drainage service.

The District owns, operates and maintains five recreation areas adjacent to the lakes behind New Exchequer and McSwain Dams. The Lake McSwain Recreation Area is located adjacent to Lake McSwain. McClure Point, Barrett Cove, Horseshoe Bend and Bagby Recreation Areas are all located adjacent to Lake McClure. A total of six boat launch facilities are available in the Parks system. The District is in the process of building a 7<sup>th</sup> boat launch facility on Lake McClure at McClure Point. The completion date is dependent on the State release of grant funds approved for the project. Over 600 campsites are available to the public on a year-round basis. Floating marinas are located on Lake McSwain and in two locations on Lake McClure for the boating public. Recreational activities enjoyed in the recreation areas include fishing, boating, swimming, camping, hiking and bicycling. In 2011, the various Parks locations had approximately 560,000 combined visitor days. In addition, the District maintains three fishing access locations on Merced River downstream from the lakes.

In 2011 the District formed the Twin Lakes Management Company, Inc (TLMC) as a separate division to operate the marina and lake recreation concessions on both Lake McSwain and Lake McClure. These concessions had previously been operated by two different private company entities under Special Use Permit Agreements with the District. Both operators were determined to be in default of those Agreements, and the decision was made to terminate the Agreements and for the District to take direct operational control of the operations. The Twin Lakes Management Company and the District reached agreement with both parties to purchase certain assets and interests and took over full operational responsibility in June 2011.

The District owns, operates and maintains the New Exchequer and McSwain dams, reservoirs, and hydroelectric facilities. These are the District's primary water storage facilities on the Merced River. They are located in the foothills on the western slope of the Sierra Nevada mountain range, approximately 23 miles northeast of Merced. The two dams and reservoirs are integral parts of the 1964 Merced River Development Project, and are licensed by the Federal Energy Regulatory Commission (FERC). New Exchequer Reservoir (Lake McClure) has a maximum storage capacity of 1,024,600 acre feet, while McSwain Reservoir (Lake McSwain) has a storage capacity of 9,730 acre feet. The New Exchequer Dam Project was completed in 1967 as a multi-purpose facility providing facilities and water for all beneficial uses, including domestic and irrigation water, flood control, hydroelectric power generation, recreation, and the environment.

The District is authorized to act as an electric utility under the California Water Code. The District has owned and operated hydroelectric generating facilities on the Merced River since 1927. In 1995, the District exercised its authority to sell power to retail electric customers. The District offers its customers full electric service including power supply and delivery to the customer. Since 1996, the District has connected 7,983 customers to the District's electric system. Electric peak demand at the height of the 2011 summer season was approximately 90.0 megawatts.

### **Required Financial Statements**

This annual financial report consists of three parts: Management's Discussion and Analysis, the Basic Financial Statements, and Supplementary Information. The District's financial statements include the (1) Statement of Net Assets, (2) Statement of Revenues, Expenses, and Changes in Net Assets, and (3) Statement of Cash Flows. The financial statements are prepared using the accrual basis of accounting.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial data provided and are an integral part of the District's financial statements. The District provides a presentation in the basic financial statements of the enterprise fund financial statements as well as supplementary information that shows the internal fund financial statements that consolidate into the enterprise fund financial statements.

The Financial Statements of the District report information about the District using accounting methods similar to those used by companies in the private sector. These statements offer short-term and long-term financial information about its activities. The *Statement of Net Assets* includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in assets and obligations to District creditors as liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its rates, fees, capacity and other charges. The District's profitability and credit worthiness can also be determined from this statement. It is prepared using the accrual basis of accounting by recognizing revenues in the period they are earned and expenses in the period they are incurred without regard to the period of cash receipt or payment.

The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period as well as net changes in cash resulting from operations, investing, and financing activities. The statement explains where cash came from and where cash was used and the change in the cash balance during the reporting period.

### **Financial Highlights**

- The District's total assets increased by \$7.3 million in 2011, excluding derivative financial instruments which increased by \$1.3 million. Total liabilities decreased by \$1.7 million excluding the corresponding change in liability for unrealized losses on derivative instruments.
- The District continued its efforts to obtain a new operating license for the hydroelectric project from the Federal Energy Regulatory Commission (FERC). The District has expended \$17.5 million on relicensing efforts as of December 31, 2011. The current license expires on February 28, 2014. The District fully expects to be granted a new license by the FERC.
- Operating revenue of \$71.5 million and operating expense of \$62.7 million resulted in net income from operations of \$8.8 million. Net non-operating expense of \$1.9 million is the result of total non-operating revenue of \$3.1 million offset by interest expense of \$5.1 million. The District also received capital contributions totaling \$4.7 million.
- The District's total cash and cash equivalents increased by \$0.2 million in 2011. This was primarily due to reduction in expenses and amounts paid for goods and services.

## Financial Analysis of the District

The District's Condensed Statements of Net Assets as of December 31 are as follows:

### CONDENSED STATEMENTS OF NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>			
Capital assets, net	\$ 140,510,355	\$ 137,943,007	\$ 138,239,644
Other non-current assets	27,128,560	21,944,318	15,548,826
Current assets	<u>62,742,130</u>	<u>61,916,151</u>	<u>66,050,391</u>
Total assets	<u>\$ 230,381,045</u>	<u>\$ 221,803,476</u>	<u>\$ 219,838,861</u>
<b>LIABILITIES</b>			
Long-term liabilities	\$ 120,657,809	\$ 122,612,184	\$ 124,746,714
Other liabilities	7,115,441	7,576,408	7,364,507
Current liabilities	<u>3,323,393</u>	<u>3,922,367</u>	<u>6,788,595</u>
Total liabilities	<u>\$ 131,096,643</u>	<u>\$ 134,110,959</u>	<u>\$ 138,899,816</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 56,940,683	\$ 51,453,212	\$ 50,998,912
Restricted	1,744,100	1,844,100	1,944,100
Unrestricted	<u>40,599,619</u>	<u>34,395,205</u>	<u>27,996,033</u>
Total net assets	<u>\$ 99,284,402</u>	<u>\$ 87,692,517</u>	<u>\$ 80,939,045</u>
Total liabilities and net assets	<u>\$ 230,381,045</u>	<u>\$ 221,803,476</u>	<u>\$ 219,838,861</u>

### CONDENSED CAPITAL ASSETS DETAIL

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Distribution system, net	\$ 78,292,005	\$ 80,309,612	\$ 82,586,582
Land and easements	13,144,380	13,144,380	13,144,380
Structures and improvements, net	26,816,013	27,656,705	28,056,765
Equipment, net	5,136,191	5,174,338	4,866,511
Intangible assets, net	1,524,256	1,631,519	1,739,894
Construction in progress	<u>15,597,510</u>	<u>10,026,453</u>	<u>7,845,512</u>
	<u>\$ 140,510,355</u>	<u>\$ 137,943,007</u>	<u>\$ 138,239,644</u>

**Significant Capital Asset Activity** – Overall, capital assets increased by \$2.6 million in 2011 compared to \$0.3 million in 2010 due to increased capital project spending in 2011 that was likewise seen in 2010 for both the electric system and the water distribution system. Although capital assets themselves increased by \$8.0 million, the annual depreciation expense incurred offset the increase. The District completed improvements to its water distribution system in 2011 in conjunction with State funded Highway improvements; the entire distribution system asset base including construction in progress increased by \$1.0 million in 2011 compared to a decrease of \$0.1 million in 2010.

For additional information about the District’s capital assets, see Note 3 to the financial statements.

**Significant Long-term Debt Activity** – Long-term debt decreased by \$1.8 million in 2011 as compared to a decrease in 2010 of \$2.0 million. At December 31, 2011 the District had long-term debt outstanding of \$117.9 million as compared to \$119.7 million in 2010 and \$121.7 million in 2009. The current amount is comprised of \$3.7 million of revenue bonds, certificates of participation and capital appreciation certificates of participation, and \$0.1 million of capital leases.

For additional information about the District’s long-term debt, see Note 5 of the financial statements.

**Significant Net Asset Activity** – The District’s net assets invested in capital assets increased by \$5.5 million as compared to an increase of \$0.5 million in 2010. This corresponds with the increase in the District’s capital assets net of the decrease in the District’s capital related debt. The balance of net assets is comprised of \$1.8 million of restricted net assets which are subject to external restrictions on their use, and \$40.6 million of unrestricted net assets. The District’s assets exceeded liabilities by \$99.3 million. The District’s net assets invested in capital assets for 2010 increased by \$0.5 million from 2009 due to the net change in capital assets and related capital debt in 2010. Capital assets are not liquid nor are they available for future spending but have been acquired over time and through their utilization, provide the District with revenue.

The District’s Condensed Statements of Revenues, Expenses, and Changes in Net Assets for the years ended December 31 are as follows:

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2011	2010	2009
Operating revenue	\$ 71,461,864	\$ 73,578,565	\$ 75,209,550
Operating expense	<u>62,661,210</u>	<u>67,619,267</u>	<u>72,041,647</u>
Net income from operations	8,800,654	5,959,298	3,167,903
Non-operating revenue (expense)	<u>(1,921,836)</u>	<u>(1,595,237)</u>	<u>(1,689,630)</u>
Net income before capital contributions	6,878,818	4,364,061	1,478,273
Capital contributions	<u>4,713,067</u>	<u>2,389,411</u>	<u>692,152</u>
Change in net assets	<u>11,591,885</u>	<u>6,753,472</u>	<u>2,170,425</u>
Net assets, beginning of year	<u>87,692,517</u>	<u>80,939,045</u>	<u>78,768,620</u>
Net assets, end of year	<u><u>\$ 99,284,402</u></u>	<u><u>\$ 87,692,517</u></u>	<u><u>\$ 80,939,045</u></u>

Net income from operations of \$6.9 million increased from \$4.4 million in net income for 2010. The \$2.5 million dollar increase was primarily due to a decrease in power purchase costs, decrease in New Municipal Departing Load cost, and offset by a decrease in the reimbursement of the hydroelectric project operational costs and decrease in water transfer revenues. The \$2.9 million increase in 2010 from 2009 was primarily due to a decrease in power purchase costs and increase in water transfer revenues. In 2011 net non-operating expense of \$1.9 million is the result of non-operating revenue of \$3.2 million offset by interest expense of \$5.1 million. Capital contribution revenue of \$4.7 million is comprised of non-cash developer contributions and third-party cash proceeds used for capital projects. The increase in capital contribution revenue of \$2.3 million in 2011 is due to increased hydroelectric infrastructure improvements and the completion of state funded highway projects for irrigation infrastructure improvements compared to 2010.

### **Economic Factors and Rates**

In 2011 MID received above average runoff which allowed for a full irrigation season and ended the season near the maximum allowable storage in Lake McClure. However due to late and above average spring storms overall water sales were less than the historical average. The District however was able to compensate the loss in revenue through a water sale outside the District. The District was able to increase the Sphere Influence Water rate and still sell a record volume under its pre-1914 water rights, and sell an additional amount under a water transfer for the same areas. These sales resulted in a much needed reduction in groundwater pumping within the Merced Groundwater Basin, while still meeting the targeted revenue. Furthermore, due to the above normal water year, the District acquired a new record in minimum groundwater extraction by its owned and controlled groundwater wells. The District maintained its water rate by continuing to manage its water resources through cost reduction measures, water conservation and efficiency improvement measures, and staff reorganization.

Three years ago, the California legislature passed wide-sweeping legislation, SBX7-7 – the Water Conservation Act of 2009 – addressing multiple water issues, including agriculture water metering. At this time, regulations are continuing to be developed. MID is carefully monitoring this issue to determine how the final rules and regulations may impact the District.

The District maintained its risk management program with the goal of reducing price volatility and providing rate certainty for its customers. A successful plan to acquire new customers from the investor owned utility due to lower rates was successful and the District saw a slight increase in customers' usage in 2011, with electric load increasing by 3.5% percent from 2010.

In 2011, the California Legislature passed SBX1-2. The legislation requires all public utilities to procure 33 percent of their electricity through renewable sources of energy, known commonly as "RPS" or Renewable Portfolio Standards. The California Energy Commission is currently drafting regulations based on the legislation. Based on our best analysis at this time, we expect MID may have to spend upward of \$40 million between now and 2020 to comply with the 33 percent RPS requirement.

With the formation of Twin Lakes Management Company (TLMC) in 2011, the new management team at TLMC has focused on improving customer services and addressing a number of deferred maintenance needs at the facilities. New rate structures and customer services, along with a continuing focus on customer satisfaction, are expected to increase customer visitor days and revenues in the future.

### **Request for Information**

This financial report is designed to provide a general overview of the District's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to Kandi Ramos, Controller, P.O. Box 2288, Merced, CA 95344-0288; or please call (209) 722-5761.

## **BASIC FINANCIAL STATEMENTS**

# MERCED IRRIGATION DISTRICT

## STATEMENTS OF NET ASSETS

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Capital assets:		
Non-depreciable	\$ 28,751,990	\$ 23,170,833
Depreciable	<u>111,758,365</u>	<u>114,772,174</u>
Capital assets, net	<u>140,510,355</u>	<u>137,943,007</u>
Other noncurrent assets:		
Deferred relicense costs	17,542,443	13,809,171
Debt issuance costs	3,845,304	4,159,136
Regulatory costs for future recovery	<u>5,740,813</u>	<u>3,976,011</u>
Total other noncurrent assets	<u>27,128,560</u>	<u>21,944,318</u>
Current assets:		
Cash and cash equivalents	38,457,854	33,484,073
Accounts receivable, net	5,136,321	5,936,933
Due from other governmental agencies	1,753,170	1,761,402
Accrued interest and taxes receivable	1,006,512	948,252
Inventory	4,266,884	4,311,419
Prepaid expenses and other current assets	661,693	612,036
Restricted cash and cash equivalents	21,096,277	25,822,172
Derivative financial instruments	<u>(9,636,581)</u>	<u>(10,960,136)</u>
Total current assets	<u>62,742,130</u>	<u>61,916,151</u>
Total assets	<u>\$ 230,381,045</u>	<u>\$ 221,803,476</u>

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

**MERCED IRRIGATION DISTRICT**  
**STATEMENTS OF NET ASSETS (CONTINUED)**

December 31, 2011 and 2010

	2011	2010
<b>LIABILITIES AND NET ASSETS</b>		
Non-current liabilities:		
Long-term liabilities	\$ 120,657,809	\$ 122,612,184
Deferred revenue	6,088,937	6,181,753
Deposits	1,026,504	1,394,655
Total non-current liabilities	127,773,250	130,188,592
Current liabilities:		
Accounts payable	1,931,630	1,844,448
Interest payable	1,243,131	1,290,557
Accrued liabilities	5,917,578	7,876,754
Deferred revenue	34,955	17,268
Deferred inflow - unrealized loss on swap contracts	(9,636,581)	(10,960,136)
Current portion of long-term liabilities	3,832,680	3,853,476
Total current liabilities	3,323,393	3,922,367
Total liabilities	131,096,643	134,110,959
Net assets:		
Invested in capital assets, net of related debt	56,940,683	51,453,212
Restricted	1,744,100	1,844,100
Unrestricted	40,599,619	34,395,205
Total net assets	99,284,402	87,692,517
Total liabilities and net assets	\$ 230,381,045	\$ 221,803,476

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

# MERCED IRRIGATION DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the years ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Electric sales and services	\$ 49,902,766	\$ 49,096,785
Water sales and services	9,613,418	9,063,731
Hydroelectric contractual services	5,819,743	6,942,380
Water transfers	3,203,258	6,859,023
Recreation fees	1,554,226	1,607,626
Storm drainage fees	7,443	9,020
Concessionaire revenue	1,361,010	-
Total operating revenues	71,461,864	73,578,565
Operating expenses:		
Purchase of power	27,061,112	28,049,376
Water distribution	11,042,027	12,395,276
Electric transmission and distribution	11,959,843	16,640,427
Recreation	2,362,824	2,002,847
Concessionaire	239,164	-
Storm drainage	25,593	41,570
Administrative and general	4,477,355	3,080,480
Depreciation and amortization	5,493,292	5,409,291
Total operating expenses	62,661,210	67,619,267
Net income from operations	8,800,654	5,959,298
Non-operating revenue (expenses):		
Property taxes	2,242,166	2,162,640
Interest income	160,899	148,476
Other non-operating income	656,835	1,304,566
Gain on disposal of capital assets	74,993	37,093
Interest expense	(5,056,729)	(5,248,012)
Total non-operating revenue (expenses)	(1,921,836)	(1,595,237)
Net income before capital contributions	6,878,818	4,364,061
Capital contributions	4,713,067	2,389,411
Total capital contributions	4,713,067	2,389,411
Change in net assets	11,591,885	6,753,472
Net assets, beginning of year	87,692,517	80,939,045
Net assets, end of year	\$ 99,284,402	\$ 87,692,517

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

# MERCED IRRIGATION DISTRICT

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash receipts from customers	\$ 71,315,180	\$ 75,699,837
Cash paid to suppliers for goods and services	(46,766,842)	(47,823,703)
Cash paid to employees for services	(11,795,882)	(11,527,972)
Net cash provided by operating activities	12,752,456	16,348,162
Cash flows from noncapital financing activities:		
Property taxes received	2,181,259	2,396,686
Relicense costs incurred	(3,840,670)	(4,712,494)
Interest payments on long-term debt	22,372	22,694
Operating assistance received	672,084	1,328,374
Net cash used for noncapital financing activities	(964,955)	(964,740)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(5,558,797)	(4,742,741)
Proceeds from sale of equipment	263,450	49,593
Capital contributions from grants	2,336,600	236,772
Principal payments on long-term debt	(3,833,183)	(3,720,639)
Interest payments on long-term debt	(4,911,232)	(5,088,525)
Net cash used by capital and related financing activities	(11,703,162)	(13,265,540)
Cash flows from investing activities:		
Interest received on investments	163,547	147,914
Net cash provided by investing activities	163,547	147,914
Increase in cash and cash equivalents	247,886	2,265,796
Cash and cash equivalents, beginning of year	59,306,245	57,040,449
Cash and cash equivalents, end of year	\$ 59,554,131	\$ 59,306,245
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 38,457,854	\$ 33,484,073
Restricted	21,096,277	25,822,172
	\$ 59,554,131	\$ 59,306,245

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

**MERCED IRRIGATION DISTRICT**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**

For the years ended December 31, 2011 and 2010

	2011	2010
Reconciliation of the net income from operations to net cash provided by operating activities		
Net income from operations	\$ 8,800,654	\$ 5,959,298
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	5,493,291	5,409,291
Changes in operating assets and liabilities:		
Accounts receivable	800,612	284,044
Due from other governmental agencies	(7,018)	222,830
Inventory	44,535	213,401
Prepaid expenses and other current assets	(49,657)	706,473
Accounts payable	535,285	(289,245)
Accrued expenses	(1,802,883)	2,409,959
Deferred revenue	(479,310)	(694,353)
Deposits	(368,151)	253,385
Deferred public purpose program revenues	(92,816)	(41,484)
Accrued postemployment benefits	47,132	(74,312)
Accrued compensated absences	(169,218)	(107,975)
	\$ 12,752,456	\$ 14,251,312
Supplemental information:		
Noncash investing, capital and financing activities:		
Receipt of contributed electric system assets from developers	\$ 2,390,296	\$ 55,790
Change in derivative financial instruments	\$ 1,323,555	\$ (4,715,998)

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

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**1. Reporting Entity and Summary of Significant Accounting Policies**

The basic financial statements of the Merced Irrigation District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As allowed by the GASB, the District has elected to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989, where not in conflict with GASB pronouncements. The more significant of the District's accounting policies are described below.

**Reporting Entity** - The District was organized in 1919 under the California Water Code to provide agricultural irrigation water to the farmers in the central portion of the San Joaquin Valley in and around eastern Merced County. The District owns and operates two dams and related reservoirs, hydroelectric generation facilities, recreation, and fish enhancement facilities in Merced and Mariposa Counties. The District also provides urban storm drainage and retail electric services in Merced County. The District is governed by a five member Board of Directors elected by the voters within the District for staggered, four year terms, every two years. As required by GAAP, the accompanying basic financial statements present the District and its component units. The component units discussed below are included in the District's reporting entity because of the significance of their operational and financial relationship with the District.

The District has created the Merced Irrigation District Public Facilities Financing Corporation (MIDPFFC) to provide assistance to the District in the issuance of debt. The District also established the Merced Irrigation District Drainage Improvement District #1 (MIDDID#1) to make annual assessments against properties that drain into a District facility for storm water drainage construction and maintenance expenses. In 2011, the District formed the Twin Lakes Management Company, Inc. (TLMC) to operate the marina and lake recreation concessions on Lake McSwain and Lake McClure.

Although legally separate from the District, the MIDPFFC, the MIDDID#1, and the TLMC are reported as if they were part of the primary government because they share a common Board of Directors with the District and their sole purposes are to provide financing to the District under the debt issuance documents of the District, construction and maintenance of storm water drainage facilities, and concession management on behalf of the District at Lake McSwain and Lake McClure, respectively. Debt issued by the MIDPFFC is reflected as debt of the District in these financial statements. The MIDPFFC, the MIDDID#1 and the TLMC do not issue separate financial statements. The MIDPFFC has no other transactions.

**Participation in Joint Power Authorities** - The San Joaquin River Group Authority (SJRG) was created in September, 1996 under a joint exercise of powers agreement between the District and the Modesto Irrigation District, Oakdale Irrigation District, South San Joaquin Irrigation District, Turlock Irrigation District, Friant Water Users Authority, and San Joaquin River Exchange Contractors Water Authority (the Parties) to represent the Parties as necessary in proceedings relating to the investigation, monitoring, planning, control, mitigation of water flow and non-flow issues, and to enhance the environmental conditions in the Delta which impact the parties. The SJRG is governed by a seven-member commission made up of one member of the Governing Board of each Party. The agreement terminates in December 2036, unless extended or terminated by the Parties. Upon termination of the Agreement, all of the SJRG assets will be returned to the respective Parties in the proportion to the contribution the Party made. Equipment, furniture or furnishings will be returned to the contributing Party. Any other property shall be converted to cash and distributed equally among the Parties.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**1. Reporting Entity and Summary of Significant Accounting Policies, continued**

***Basis of Presentation*** - The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets represent the amount available for future operations.

***Basis of Accounting*** - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statement of net assets. Net assets are segregated into amounts invested in capital assets, net of related debt; amounts restricted; and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. When funds are received in advance of program expenditures, they are recorded as deferred revenues until earned. Earned but unbilled electric and water services are accrued as revenue. Electrical infrastructures that are constructed by private developers are contributed to the District, which then become the responsibility of the District to maintain. These infrastructures are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized and included as a part of the electric transmission and distribution system.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

The District maintains both restricted and unrestricted cash. Restricted cash is held in reserve and is spent exclusively for the intended purpose. In the event that the restricted cash is insufficient to complete the intended purpose, unrestricted cash is utilized.

***Use of Estimates*** - The preparation of financial statements in conformity with GAAP 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.

***Reclassifications*** - Certain reclassifications have been made to the 2010 balances to agree to the 2011 presentation. These reclassifications had no effect on the previously reported change in net assets, or total net assets.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**1. Reporting Entity and Summary of Significant Accounting Policies, continued**

**Regulatory Deferrals** - The 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* (SFAS 71), which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits normally reflected in the statement of revenues, expenses and changes in net assets as incurred are recognized when included in rates and recovered from, or refunded to, customers.

A portion of the District's annual power supply requirement is purchased from the Western Area Power Administration (WAPA). In 2006, due to increased hydroelectric production by WAPA, the District's allotment was significantly higher than anticipated. The comparatively low cost of this power offset higher priced power, causing a reduction of the District's expected overall power supply cost in 2006. This reduction in cost resulted in excess net income that is available to offset the projected power supply cost increase in future years. The power supply cost reduction was deferred in accordance with SFAS 71 for the benefit of future customer rate stabilization and is recorded as deferred power cost reductions on the statement of net assets. At December 31, 2011 and 2010, the deferred power cost reductions were \$800,000 as reported in non-current deferred revenue.

A portion of the District water sales revenue is derived from water transfers to state and/or federal agencies for environmental purposes based upon the District's ability to make such water resources available to meet flow objectives in the Merced River, San Joaquin River, or the Delta. In 2007, the District was able to negotiate several transfer agreements which resulted in excess net income available to offset the projected low water sales and increasing costs in future years. A portion of the excess revenue, \$4,600,000, was deferred in accordance with SFAS 71 for the benefit of future customer rate stabilization and is recorded as deferred water transfer revenue on the Statement of Net Assets. At December 31, 2011 and 2010, the deferred water revenues were \$3,200,000 as reported in non-current deferred revenue.

The amount reported as regulatory costs for future recovery represents the accretion of interest on capital appreciation certificates of participation until such time as these costs will be covered by hydroelectric sales in the future.

**Capital Assets** - Capital assets are recorded at historical cost. Contributed assets are valued at estimated fair value on the date received. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Description	Estimated Life
Landscaping	10 - 40 years
Building and structures	10 - 100 years
Transmission and distribution systems	15 - 50 years
Machinery	30 - 35 years
Vehicles	3 - 10 years
Equipment	3 - 40 years
Intangible assets	10 - 50 years

Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with a cost of more than \$5,000. Costs of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**1. Reporting Entity and Summary of Significant Accounting Policies, continued**

***Deferred Relicense Costs*** - The District is deferring the costs of studies, legal counsel and various consultants associated with relicensing the 1964 Merced River Development Project with the Federal Energy Regulatory Commission until the license is renewed. The project is expected to be relicensed in 2014, at which time these costs will be amortized to expense over the new license period.

***Bond Discounts, Premiums, Deferred Amount on Refunding and Issuance Costs*** - Bond discounts, premiums, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts and premiums. Issuance costs are reported as noncurrent assets. For current refundings and advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

***Accounts Receivable*** - Accounts receivable arise from billings to customers for water and electricity usage and include an estimate for unbilled revenues earned from the dates the customers were last billed to the end of the year. An estimate of the uncollectible amount is \$41,700 and \$48,000 at December 31, 2011 and 2010, respectively.

***Due from Other Governmental Agencies*** - Due from other agencies represents reimbursements due from other agencies for services performed and for water and electricity delivered.

***Inventory*** - Inventory is stated at average cost. Inventory consists of parts and supplies.

***Derivative Financial Instruments*** - The District uses swap agreements to hedge the impact of market volatility of electricity commodity prices for purchases of electricity for the District's retail load. The District records these derivative financial instruments at fair value on its statement of net assets. Fair value is estimated by comparing contract prices to forward market prices quoted by third party market participants. The Board defers recognition of the unrealized gains or losses from such instruments for rate-making purposes and due to the hedging effectiveness of the derivatives; the balance is reflected as deferred loss-unrealized (loss) gain on swap agreements on the statement of net assets and is charged or credited into electricity supply costs as the related asset or liability is utilized.

***Compensated Absences*** - The District's policy allows employees to accumulate earned but unused vacation, which will be paid to employees upon separation from service to the District, subject to a vesting policy. All or a portion of unused sick leave is paid out upon retirement. The District accrues the liability for vacation and sick leave when the employee earns the right to the benefit.

***Deferred Public Purpose Revenues*** - The District is required by the Public Utilities Code to establish a usage-based charge of 2.85% on its electricity sales, which is collected as part of the electric billings. These revenues are to be used for energy efficiency and conservation programs, renewable energy resources, research and development and to provide assistance to low-income customers. These revenues are deferred until qualifying expenses are incurred. At December 31, 2011 and 2010, the deferred public purpose revenues were \$2,088,937 and \$2,187,753, respectively, as reported in non-current deferred revenue.

***Purchased Power Expenses*** - The District's electricity needs are provided through electricity purchase agreements. Expenses from such agreements, along with associated interconnection costs, are recorded as the cost of electricity in the period the electricity is received. The net cash payments or receipts incurred under the swap agreements are reported as a component of cost of electricity supply in the statement of revenues, expenses and changes in net assets in the period in which the underlying electricity supply delivery occurs.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**1. Reporting Entity and Summary of Significant Accounting Policies, continued**

**Property Taxes** - The District receives property taxes from Merced County. Property taxes receivable are recorded in the fiscal year for which the tax is levied based on the assessed value as of September 1 of the preceding fiscal year. They become a lien on the first day of the year they are levied. Secured property tax is levied on September 1 and due in two installments, on November 1 and March 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1 and become delinquent on August 31. The District elected to receive the property taxes from the County under the Teeter Bill Program. Under this Program, the District receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

**Cash and Cash Equivalents** - The District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, along with all pooled deposits and investments in the Local Agency Investment Fund, which are available upon demand.

**New Accounting Pronouncements -**

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The statement requires the District to account and report for service concession arrangements where a governmental or non-governmental entity has given consideration in the form of cash, assets or improvements in exchange for the right to operate a capital asset and collect the fees and charges associated with its operation. The statement is effective for periods beginning after December 15, 2011. The District does not believe there will be a significant financial statement effect related to this statement.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. The objective of the statement is to improve financial reporting for a governmental entity. The statement modifies the criteria for the inclusion and blending of component units in the reporting entity. The statement is effective for periods beginning after June 15, 2012. Since the District is a stand-alone proprietary fund, it does not believe there will be a significant financial statement effect related to this statement.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**1. Reporting Entity and Summary of Significant Accounting Policies, continued**

*New Accounting Pronouncements, continued -*

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to codify pre-November 30, 1989 FASB and AICPA pronouncements. The statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that statement for enterprise funds and business-type activities to apply post-November 30, 1989 guidance that does not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 guidance that does not conflict with or contradict GASB pronouncements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The District does not believe there will be a significant financial statement effect related to this statement.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement adds two new elements to financial reporting: deferred inflow of resources and deferred outflow of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined these financial statements elements, but there is no previous guidance for reporting them, as the elements are distinct from assets and liabilities. Statement No. 63 amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The District is in the process of evaluating the impact of implementing this statement for financial reporting.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No. 53*. The objective of the statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this statement are effective for financial statements for period beginning after June 15, 2011. The District is in the process of evaluating the impact of implementing this statement for financial reporting.

**2. Cash and Investments**

Cash and investments are classified in the accompanying financial statements as follows as of December 31:

	2011	2010
Cash and cash equivalents	\$ 38,457,854	\$ 33,484,073
Restricted cash and cash equivalents	21,096,277	25,822,172
Total cash and investments	\$ 59,554,131	\$ 59,306,245

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**2. Cash and Investments, continued**

Cash and investment consisted of the following as of December 31:

	2011	2010
Cash on hand	\$ 9,420	\$ 3,920
Deposits with financial institutions	44,922,434	44,605,705
Total cash and deposits	44,931,854	44,609,625
Money market mutual funds	2,921,901	3,003,213
Investments in LAIF	11,700,376	11,693,407
Total investments	14,622,277	14,696,620
Total cash and investments	\$ 59,554,131	\$ 59,306,245

**Investment Policy** - California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - *Financial Affairs*. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy. During the year ended December 31, 2011, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agencies Securities	5 years	None	None
California Local Agency Debt	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial paper	180 days	15%	10%
Negotiable Certificates and Time Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Medium Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None
JPA Pools (Other investment pools)	N/A	None	None

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**2. Cash and Investments, continued**

The District complied with all other provisions of California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

**Investments Authorized by Debt Agreements** - Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies certain provisions of these debt agreements that address interest risk, credit risk and concentration risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agencies Securities	5 years	None	None
California Local Agency Debt	5 years	None	None
Banker's Acceptances	1 year	None	None
Commercial Paper	None	None	None
Negotiable Certificates and Time Deposits	None	None	None
Repurchase Agreements	30 days	None	None
Investment Agreements	None	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Funds (LAIF)	N/A	None	None

**Interest Rate Risk** - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**2. Cash and Investments, continued**

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

	Remaining Maturity (in Months)	
	Total	12 months or less
Local Agency Investment Funds	\$ 6,434,228	\$ 6,434,228
Held by bond trustee:		
Money Market Mutual Funds	2,921,901	2,921,901
Local Agency Investment Funds	5,266,148	5,266,148
Total	\$ 14,622,277	\$ 14,622,277

**Credit Risk** - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of yearend for each investment type.

	Minimum Legal Rating	Total		
		Total	AAA/Aaa	Unrated
Local Agency Investment Funds	Unrated	\$ 6,434,228	\$ -	\$ 6,434,228
Held by bond trustee:				
Money Market Mutual Funds	AAA/Aaa	2,921,901	2,921,901	-
Local Agency Investment Funds	Unrated	5,266,148	-	5,266,148
		\$ 14,622,277	\$ 2,921,901	\$ 11,700,376

**Concentration of Credit Risk** - The investment policy of the District limits the amount that can be invested in any one issuer to the lesser of the amount stipulated by the California Government Code or 50% of total investments, with the exception of U.S. Treasury Obligations, U.S. Agency Securities, Money Market Mutual Funds, and LAIF. As of December 31, 2011, the District had no individual investment that exceeded 5% of its total investments.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**2. Cash and Investments, continued**

***Custodial Credit Risk*** - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At December 31, 2011, the carrying amount of the District's deposits was \$44,922,434 and the balance in financial institutions was \$44,922,434. Of the balance in financial institutions, \$21,096,276 was covered by federal depository insurance and \$23,788,062 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

***Investment in LAIF*** - As of December 31, 2011, the District's investment in LAIF is \$11,700,376. The total amount invested by all public agencies in LAIF at that date is approximately \$23 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$68 billion. As of December 31, 2011, LAIF has an average life-month end of 256 days. The Local Investment Advisory Board (Advisory Board) has oversight responsibility for LAIF. The Advisory Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the District's position in the pool.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**3. Capital Assets**

Capital asset activity for the years ended December 31, 2011 and 2010 is as follows:

	Balances at January 1, 2011	Additions	Disposals	Transfers and Adjustments	Balances at December 31, 2011
Capital assets, not being depreciated					
Land	\$ 13,144,380	\$ -	\$ -	\$ -	\$ 13,144,380
Construction in process	10,026,453	7,451,924	(126)	(1,880,741)	15,597,510
Goodwill	-	10,100	-	-	10,100
Total capital assets, not being depreciated	<u>23,170,833</u>	<u>7,462,024</u>	<u>(126)</u>	<u>(1,880,741)</u>	<u>28,751,990</u>
Capital assets, being depreciated					
Landscaping	6,555,912	-	-	-	6,555,912
Buildings and structures	51,151,606	45,193	-	196,773	51,393,572
Water distribution system	22,079,306	-	-	641,306	22,720,612
Electric transmission and distribution system	83,623,705	-	-	331,924	83,955,629
Machinery and equipment	9,757,392	251,377	-	558,595	10,567,364
Vehicles	8,785,223	116,024	(796,672)	152,143	8,256,718
Intangible plant	8,642,159	104,143	-	-	8,746,302
Total capital assets, being depreciated	<u>190,595,303</u>	<u>516,737</u>	<u>(796,672)</u>	<u>1,880,741</u>	<u>192,196,109</u>
Less accumulated depreciation for:					
Landscaping	(5,282,757)	(219,764)	-	-	(5,502,521)
Buildings and structures	(24,768,056)	(862,896)	-	-	(25,630,952)
Water distribution system	(5,877,677)	(585,753)	-	-	(6,463,430)
Electric transmission and distribution system	(19,515,722)	(2,405,085)	-	-	(21,920,807)
Machinery and equipment	(6,921,342)	(322,222)	-	-	(7,243,564)
Vehicles	(6,446,935)	(562,228)	564,838	-	(6,444,325)
Intangible plant	(7,010,640)	(221,505)	-	-	(7,232,145)
Total accumulated depreciation	<u>(75,823,129)</u>	<u>(5,179,453)</u>	<u>564,838</u>	<u>-</u>	<u>(80,437,744)</u>
Total capital assets being depreciated, net	<u>114,772,174</u>	<u>(4,662,716)</u>	<u>(231,834)</u>	<u>1,880,741</u>	<u>111,758,365</u>
Capital assets, net	<u>\$ 137,943,007</u>	<u>\$ 2,799,308</u>	<u>\$ (231,960)</u>	<u>\$ -</u>	<u>\$ 140,510,355</u>

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**3. Capital Assets, continued**

	Balances at January 1, 2010	Additions	Disposals	Transfers and Adjustments	Balances at December 31, 2010
Capital assets, not being depreciated					
Land	\$ 13,144,380	\$ -	\$ -	\$ -	\$ 13,144,380
Construction in process	7,845,512	4,320,885	-	(2,139,944)	10,026,453
Total capital assets, not being depreciated	<u>20,989,892</u>	<u>4,320,885</u>	<u>-</u>	<u>(2,139,944)</u>	<u>23,170,833</u>
Capital assets, being depreciated					
Landscaping	6,460,820	-	-	95,092	6,555,912
Buildings and structures	50,547,933	137,120	-	466,553	51,151,606
Water distribution system	21,984,826	13,531	-	80,949	22,079,306
Electric transmission and distribution system	83,023,367	-	-	600,338	83,623,705
Machinery and equipment	9,685,351	72,982	(222,385)	221,444	9,757,392
Vehicles	8,361,494	184,819	(436,658)	675,568	8,785,223
Intangible plant	8,542,038	100,121	-	-	8,642,159
Total capital assets, being depreciated	<u>188,605,829</u>	<u>508,573</u>	<u>(659,043)</u>	<u>2,139,944</u>	<u>190,595,303</u>
Less accumulated depreciation for:					
Landscaping	(5,062,251)	(220,506)	-	-	(5,282,757)
Buildings and structures	(23,889,737)	(878,319)	-	-	(24,768,056)
Water distribution system	(5,292,472)	(585,205)	-	-	(5,877,677)
Electric transmission and distribution system	(17,129,139)	(2,386,583)	-	-	(19,515,722)
Machinery and equipment	(6,861,594)	(257,227)	197,479	-	(6,921,342)
Vehicles	(6,318,740)	(546,334)	418,139	-	(6,446,935)
Intangible plant	(6,802,144)	(208,496)	-	-	(7,010,640)
Total accumulated depreciation	<u>(71,356,077)</u>	<u>(5,082,670)</u>	<u>615,618</u>	<u>-</u>	<u>(75,823,129)</u>
Total capital assets being depreciated, net	<u>117,249,752</u>	<u>(4,574,097)</u>	<u>(43,425)</u>	<u>2,139,944</u>	<u>114,772,174</u>
Capital assets, net	<u>\$ 138,239,644</u>	<u>\$ (253,212)</u>	<u>\$ (43,425)</u>	<u>\$ -</u>	<u>\$ 137,943,007</u>

**4. Accrued Liabilities**

Accrued liabilities include settlements, permission fees and power purchase expense. The balances of the District's accrued liabilities during the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Accrued NMDL settlement	\$ 333,905	\$ 1,391,236
Accrued permission fees	910,200	895,460
Accrued power purchase expense	2,313,410	4,067,831
Other accrued liabilities	2,360,063	1,522,227
Total accrued liabilities	<u>\$ 5,917,578</u>	<u>\$ 7,876,754</u>

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**5. Long-Term Liabilities**

Long-term liabilities include long-term debt, capital leases and accrued compensated absences. The activity of the District's long-term liabilities during the years ended December 31, 2011 and 2010 is as follows:

	Balances at January 1, 2011	Additions	Repayments	Balances at December 31, 2011	Due Within One Year
Long-term debt:					
Merced River					
Development Bonds	\$ 5,585,000	\$ -	\$ (1,415,000)	\$ 4,170,000	\$ 1,470,000
2003 Revenue Certificates of Participation	13,430,000	-	(250,000)	13,180,000	260,000
2005 Electric System Refunding Revenue Bonds	60,480,000	-	(1,195,000)	59,285,000	1,235,000
2005 Revenue Certificates of Participation	14,180,000	-	(295,000)	13,885,000	305,000
2008 Water and Hydro Refunding Revenue Certificates of Participation	5,185,000	-	(575,000)	4,610,000	435,000
2008 Water and Hydro Capital Appreciation Revenue Certificates of Participation	22,718,863	-	-	22,718,863	-
	<u>121,578,863</u>	<u>-</u>	<u>(3,730,000)</u>	<u>117,848,863</u>	<u>3,705,000</u>
Capital lease	323,793	-	(103,183)	220,610	127,680
	<u>121,902,656</u>	<u>-</u>	<u>(3,833,183)</u>	<u>118,069,473</u>	<u>\$ 3,832,680</u>
Add:					
Deferred amount on refunding	(3,483,449)	-	299,189	(3,184,260)	
Bond discounts	(266,237)	-	23,405	(242,832)	
Bond premiums	1,448,516	-	(107,298)	1,341,218	
Accretion of capital appreciation certificates	3,976,011	-	1,764,802	5,740,813	
Less: current portion of long-term debt	(3,853,476)	-	20,796	(3,832,680)	
	<u>119,724,021</u>	<u>-</u>	<u>2,000,894</u>	<u>117,891,732</u>	
Accrued compensated absences	1,300,468	-	(169,218)	1,131,250	
Net OPEB obligation	1,587,695	-	47,132	1,634,827	
Total long-term liabilities	<u>\$ 122,612,184</u>	<u>\$ -</u>	<u>\$ 1,878,808</u>	<u>\$ 120,657,809</u>	

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**5. Long-Term Liabilities, continued**

	Balances at January 1, 2010	Additions	Repayments	Balances at December 31, 2010	Due Within One Year
Long-term debt:					
Merced River					
Development Bonds	\$ 6,950,000	\$ -	\$ (1,365,000)	\$ 5,585,000	\$ 1,415,000
2003 Revenue Certificates of Participation	13,670,000	-	(240,000)	13,430,000	250,000
2005 Electric System Refunding Revenue Bonds	61,635,000	-	(1,155,000)	60,480,000	1,195,000
2005 Revenue Certificates of Participation	14,465,000	-	(285,000)	14,180,000	295,000
2008 Water and Hydro Refunding Revenue Certificates of Participation	5,760,000	-	(575,000)	5,185,000	575,000
2008 Water and Hydro Capital Appreciation Revenue Certificates of Participation	22,718,863	-	-	22,718,863	-
	<u>125,198,863</u>	<u>-</u>	<u>(3,620,000)</u>	<u>121,578,863</u>	<u>3,730,000</u>
Capital lease	424,432	-	(100,639)	323,793	123,476
	<u>424,432</u>	<u>-</u>	<u>(100,639)</u>	<u>323,793</u>	<u>123,476</u>
Total	125,623,295	-	\$ (3,720,639)	121,902,656	<u>\$ 3,853,476</u>
Add:					
Deferred amount on refunding	(3,797,372)	-	\$ 313,923	(3,483,449)	
Bond discounts	(290,945)	-	24,708	(266,237)	
Bond premiums	1,559,940	-	(111,424)	1,448,516	
Accretion of capital appreciation certificates	2,320,722	-	1,655,289	3,976,011	
Less: current portion of long-term debt	(3,739,376)	-	(114,100)	(3,853,476)	
	<u>(3,739,376)</u>	<u>-</u>	<u>(114,100)</u>	<u>(3,853,476)</u>	
Total long-term debt	121,676,264	-	1,768,396	119,724,021	
Accrued compensated absences	1,408,443	-	(107,975)	1,300,468	
Net OPEB obligation	1,662,007	-	(74,312)	1,587,695	
	<u>1,662,007</u>	<u>-</u>	<u>(74,312)</u>	<u>1,587,695</u>	
Total long-term liabilities	<u>\$ 124,746,714</u>	<u>\$ -</u>	<u>\$ 1,586,109</u>	<u>\$ 122,612,184</u>	

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

5. **Long-Term Liabilities, continued**

**Long-Term Debt** - Long-term debt consists of the following at December 31, 2011:

**Merced River Development Bonds** - On July 1, 1964, the District issued the Merced River Development Revenue Bonds in the amount of \$36,000,000. Serial and term bonds in the amount of \$9,660,000 and \$26,340,000, respectively, were issued with various call features. Proceeds from these bonds were used to construct the New Exchequer Dam and McSwain Dam, expand the hydroelectric plant, increase irrigation water supply and increase flood control storage. The bonds are to be retired from the proceeds of the power contract with the Pacific Gas and Electric Company dated June 25, 1964 for the sale of power. Interest rates range from 3.625% to 3.75%. Semi-annual principal and interest payments ranging from \$402,406 to \$1,214,572 are due on January 1 and July 1, through July 1, 2014.

**2003 Revenue Certificates of Participation (Electric System Project)** - On March 1, 2003, the District issued 2003 Revenue Certificates of Participation in the amount of \$15,000,000. The proceeds were used to finance the cost of certain improvements to the electric system. The Certificates are secured by a lien on the District's electric system net revenues. Interest rates range from 1.50% to 5.70%. Principal payments ranging from \$95,000 to \$945,000 are due annually on September 1 through September 1, 2036. Interest payments ranging from \$26,933 to \$408,978 are due semi-annually on March 1 and September 1, through September 1, 2036. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

**2005 Electric System Refunding Revenue Bonds** - On November 10, 2005, the District issued 2005 Electric System Refunding Revenue Bonds in the amount of \$63,050,000. Proceeds from these bonds were used to advance refund the District's 2001 Electric System Refunding Revenue Bonds and the 2002 Revenue Certificate of Participation. The Bonds are secured by a lien on the District's electric system net revenues. Interest rates range from 3.25% to 5.75%. Principal payments ranging from \$300,000 to \$4,045,000 are due annually on September 1 through September 1, 2036. Interest payments ranging from \$106,181 to \$1,576,706, are due semi-annually on March 1 and September 1, through September 1, 2036. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

**2005 Revenue Certificates of Participation (2005 Electric System Project)** - On November 10, 2005, the District issued 2005 Revenue Certificates of Participation in the amount of \$15,000,000. The proceeds are to be used to finance the cost of certain improvements to the electric system of the District. The Bonds are secured by a lien on the District's electric system net revenues. Interest rates range from 3.25% to 5.25%. Principal payments ranging from \$260,000 to \$950,000 are due annually on September 1, through September 1, 2036. Interest payments ranging from \$24,938 to \$365,476 are due semi-annually on March 1 and September 1, through September 1, 2036. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

**2008 A Refunding Revenue Certificates of Participation (Water and Hydroelectric System Projects)** - On June 24, 2008, the District issued 2008 Refunding Revenue Certificates of Participation in the amount of \$6,335,000. Proceeds were used to advance refund the District's 2001 Certificates of Participation (Water Utility Facilities Improvements). The Certificates are secured by a lien on the District's Water Operations and Hydroelectric net revenues. Interest rates range from 3.00% to 4.625%. Principal payments ranging from \$435,000 to \$600,000 are due annually on September 1, through September 1, 2020. Interest payments ranging from \$27,750 to \$292,133 are due semi-annually on March 1 and September 1, through September 1, 2020. The District is required to maintain a ratio of water operation net revenues to debt service of 120% until 2014 and a ratio of water operations and hydroelectric net revenue to debt service of 125% thereafter.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**5. Long-Term Liabilities, continued**

**2008 B Capital Appreciation Revenue Certificates of Participation** - On June 24, 2008, the District issued 2008 Capital Appreciation Revenue Certificates of Participation in the amount of \$22,718,863. Proceeds were used to advance refund the 2005 Warrants and to continue to finance the costs of relicensing the District's 1964 Merced River Development Project. The certificates are secured by a lien on the District's Water Operations and Hydroelectric net revenues. Interest rates range from 6.35% to 6.75%. Interest on these certificates is compounded semi-annually at March 1 and September 1, commencing September 1, 2008. The interest cost is accreted from date of issuance to maturity. The Certificates mature on September 1, 2023, 2033 and 2038; however, mandatory prepayments on these Certificates begin on September 1, 2015, September 1, 2024 and September 1, 2034 for each certificate maturity date, respectively. Principal payments ranging from \$387,550 to \$1,832,445 are due annually starting September 1, 2015 through September 1, 2038. Interest payments ranging from \$1,039,143 to \$2,487,450 are due annually starting September 1, 2015 through September 1, 2038. The District is required to maintain a ratio of water operations and hydroelectric net revenue to debt service of 125%.

The following is a schedule of long-term debt, excluding capital leases:

Years Ending December 31,	Principal	Interest	Total
2012	\$ 3,705,000	\$ 4,791,674	\$ 8,496,674
2013	3,880,000	4,625,405	8,505,405
2014	3,635,000	4,449,505	8,084,505
2015	4,427,445	5,333,811	9,761,256
2016	4,417,150	5,336,298	9,753,448
2017-2021	22,025,305	26,138,524	48,163,829
2022-2026	21,212,130	24,444,173	45,656,303
2027-2031	24,345,442	21,307,359	45,652,801
2032-2036	29,400,005	16,248,954	45,648,959
2037-2040	801,386	4,946,397	5,747,783
	<u>\$ 117,848,863</u>	<u>\$ 117,622,100</u>	<u>\$ 235,470,963</u>

**Pledged Revenues** - The District has pledged future electric customer revenues, net of specified operating expenses, to repay \$15,000,000 of Revenue Certificates of Participation issued in March 2003, \$63,050,000 of Electric System Refunding Revenue Bonds issued in November 2005, and \$15,000,000 of Revenue Certificates of Participation issued in November 2005. Proceeds from the bonds provided financing for improvements to the electric system. The bonds are payable solely from electric customer net revenues and are payable through September 2036. The total principal and interest remaining to be paid on the bonds is \$156,428,946. Principal and interest paid for the current year and total electric customer net revenues were \$6,260,769 and \$13,840,674, respectively.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**5. Long-Term Liabilities, continued**

The District has pledged future water operations and hydroelectric system revenues, net of specified operating expenses, to repay \$6,335,000 of Revenue Refunding Certificates of Participation issued in June 2008, and \$22,718,863 of Capital Appreciation Revenue Certificates of Participation issued in June 2008. Proceeds from the Certificates provided financing for improvements to the water system and relicensing of the hydroelectric facility. The Certificates are payable solely from water operations and hydroelectric net revenues and are payable through September 2038. The total principal and interest remaining to be paid on the Certificates is \$74,612,798. Principal and interest paid for the current year and total water customer net revenues were \$786,795 and \$2,760,643, respectively.

**Capital Lease** - The District's capital lease represents the present value of the sublease payments related to the electric distribution system and related facilities at the former Castle Air Force Base. The interest rate used to calculate the present value of the future minimum sublease payments is 4%. Payments on this sublease represent 10% of gross revenues received by the District from the sale of electric services to customers of the District in the Castle area and are due through 2013, at which time ownership of the electric distribution system will be transferred to the District.

The following is a schedule of the future minimum lease payments required under capital leases and the present value of the net minimum lease payments at December 31, 2011:

Years Ending December 31,		
2012	\$	134,181
2013		94,386
Total minimum lease payments		228,567
Less: Amount representing interest		(7,957)
Present value of minimum lease payments	\$	220,610

**Arbitrage** - The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax exempt bonds after August 31, 1986. Arbitrage regulations deal with investments of all tax-exempt bond proceeds at an interest yield greater than the interest paid to the bondholders. Generally, all interest paid to bond holders can be retroactive if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. At December 31, 2011 and 2010, the District had no arbitrage liability.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**6. Energy Supply Purchases and Derivatives**

***Power Supply Agreements*** - The District relies on various power supply agreements to serve its customers' electricity requirements. The District has power supply agreements with the Turlock Irrigation District (TID), Western Area Power Administration (WAPA), and Iberdrola Renewables, Inc. (Iberdrola). Furthermore, TID provides wheeling, interconnection and ancillary services to the District under an interconnection agreement. The major agreements are described as follows:

***Turlock Irrigation District*** - In 2011, the District amended and extended its current power supply agreement with TID through June 30, 2014. The amendment contained several changes effective February 1, 2011, including a calculation of the energy prices based on the Daily Intercontinental Exchange, Inc. NP-15 Firm Index (ICE NP15 Index) in dollars per megawatt-hour plus any congestion and loss charges. In addition, the energy prices adder was redefined to be the product of the ICE NP15 Index applicable to the delivery period, and six percent plus \$4.25 per megawatt-hour for the period from February 1, 2011 through December 31, 2011; \$4.50 per megawatt-hour for the period from January 1, 2012 through December 31, 2012; \$4.75 per megawatt-hour for the period from January 1, 2013 through December 31, 2012; and \$5.00 per megawatt-hour for the period from January 1, 2014 through June 30, 2014.

This partial requirements power supply agreement provides power for all of the District's power requirements with the exception of the power supplied by WAPA. The price of this power supply is tied to the ICE NP 15 index times 106% plus \$4.25 per megawatt-hour, effective February 1, 2011. The District's purchases of power from TID in 2011 and 2010 totaled \$16,738,385 and \$16,875,010, respectively.

The District is also a party to a small hydroelectric project development agreement with TID, under which the District owns the project plant and equipment and TID operates and maintains the three small hydroelectric projects which are part of the overall agreement. The agreement provides for TID to receive all revenues from the sale of project power and the District to share in any profits earned by the project per the agreement formula. The agreement for each of the small hydroelectric projects expires beginning in 2031 through 2032.

***Western Area Power Administration*** - WAPA markets power from the Central Valley Project (CVP) and Washoe Project. The District began operating under the base resource contract on January 1, 2005. This contract provides for the District to receive 0.33201% of WAPA's base resource, which is power available for marketing after project power requirements. The current contract is scheduled to expire December 31, 2024. The District's composite price for power was approximately \$24.85 and \$30.26 per megawatt hour in 2011 and 2010, respectively. The District's purchases in 2011 and 2010 totaled \$386,010 and \$280,889, respectively.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**6. Energy Supply Purchases and Derivatives, continued**

***Iberdrola Renewables Inc.*** - The District entered into a 25-year power supply agreement with Iberdrola in 2003 for energy generated by a wind energy project. This is a non-firm power supply contract to purchase 5 megawatts of installed capacity, which is expected to generate 16,000 megawatt-hours of energy annually for the District at a fixed price of \$54.95 per megawatt-hour. The District entered into a subsequent agreement to sell this wind energy back to Iberdrola from January 1, 2006, through January 1, 2008. In 2007, this agreement was extended through January 1, 2009, and in 2008 it was further extended through March 31, 2009. The price per megawatt-hour through March 31, 2009 was 90% of the Powerdex hourly index at North Path 15 minus \$1.00. In March of 2009, in order to update the original agreement for the implementation of Market Redesign and Technology Upgrade (MRTU), an amendment was executed utilizing the contract for difference methodology. Since after MRTU the wind energy would be physically delivered into the California Independent System Operator (CAISO) rather than to the District, this method negated the need for a sellback agreement. Effective April 1, 2010 through the remaining life of the power supply agreement, under the new amendment, the District receives a credit on their invoice for the amount of energy delivered to the CAISO times the locational marginal price applicable to the CAISO pricing node for the wind project. The District's purchases in 2011 and 2010 totaled \$651,068 and \$662,117, respectively. The District's sales back to Iberdrola in 2011 and 2010 totaled \$293,778 and \$396,401, respectively.

***Derivative Instruments*** - The District has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Subject to certain exceptions, GASB Statement No. 53 requires that every derivative instrument be recorded on the statement of net assets as an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred.

It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity, natural gas and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity and natural gas are considered to be derivatives under GASB Statement No. 53, as they do not generally meet the "normal purchases and normal sales" criteria.

***Background Information*** – At December 31, 2011, the District has the following derivative financial instruments:

Type	Notional Amount	Changes in Fair Value		2011	
		Classification	Amount	Classification	Amount
Commodity forward contracts	407,280 MWh	Deferred inflow	\$ (1,323,555)	Derivative instruments	\$ 9,636,581
Type	Notional Amount	Changes in Fair Value		2010	
		Classification	Amount	Classification	Amount
Commodity forward contracts	689,690 MWh	Deferred outflow	\$ 4,715,998	Derivative instruments	\$ 10,960,136

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**6. Energy Supply Purchases and Derivatives, continued**

The District enters into derivative energy transactions to hedge its known or expected positions within its approved risk management policy. Decisions are made to enter into forward transactions to protect its financial position.

The District purchases fixed-for-floating swap agreements to hedge changes in cash flows and to manage market price risk under its TID agreement. All ongoing electricity swap agreements settled against the North Path 15 daily price index until April 1, 2009, when MRTU was implemented. Effective April 1, 2009, all ongoing electricity swap agreements settle against the newly-created North Path 15 Existing Zone Generation Trading Hub's day-ahead locational marginal price index. The North Path 15 index was selected to link the swap agreements to the cost of electricity under the TID agreement. The District's objective in executing swap agreements is to fix its costs for power supply and hedge market price exposure. The net amount of electricity swap settlements paid in 2011 and 2010 were \$9,936,750 and \$10,893,477, respectively.

The fair values of the electricity price swap agreements are based on forward prices from established indices for the applicable region and discounted using the District's estimated cost of funds of 5.5% at December 31, 2011 and 2010.

**Risks** - The following table displays the terms of the District's hedging derivative instruments outstanding at December 31, 2011, along with the credit rating of the associated counterparty or parent company guarantor, as applicable. All of these instruments presented in the table are commodity forward contracts with the objective to hedge changes in cash flows due to market price fluctuations related to expected purchases of electricity. In addition, all of the instruments settle at expiration using the North Path 15 as the index.

Type	Notional Amount		Effective Date	Maturity Dates	Counterparty Credit Risk
Commodity forward contract	43,920	MWh	09/29/09	01/01/2012 - 12/31/2012	A
Commodity forward contract	24,560	MWh	03/05/10	01/01/2012 - 12/31/2012	A-
Commodity forward contract	43,920	MWh	03/05/09	01/01/2012 - 12/31/2012	A-
Commodity forward contract	43,920	MWh	05/13/09	01/01/2012 - 12/31/2012	A-
Commodity forward contract	43,920	MWh	11/25/09	01/01/2012 - 12/31/2012	A-
Commodity forward contract	43,800	MWh	03/05/09	01/01/2012 - 12/31/2012	A-
Commodity forward contract	43,800	MWh	10/30/09	03/01/2012 - 03/31/2012	A-
Commodity forward contract	43,920	MWh	10/21/09	04/01/2012 - 06/30/2012	A-
Commodity forward contract	20,480	MWh	09/12/11	03/01/2012 - 03/31/2012	A
Commodity forward contract	24,640	MWh	11/30/11	06/01/2012 - 06/30/2012	A
Commodity forward contract	30,400	MWh	11/30/11	09/01/2012 - 09/30/2012	A

**Credit Risk** – The District is exposed to credit risk related to non-performance by its wholesale counterparties under the terms of these swap agreements. The District evaluates the creditworthiness of its counterparties at the time of inception of the International Swap Dealers Association, Inc. (ISDA) agreement and at the time each swap transaction is executed, but the District does not currently have a formal evaluation policy. The District does contract with several counterparties to mitigate the risk of non-performance by any one counterparty.

**Other Risks** – There were no derivatives transactions outstanding that carry basis risk as of December 31, 2011 and 2010. As of December 31, 2011 and 2010, no termination events have occurred, and there were no outstanding transactions with material termination risk. There was no rollover, interest rate, foreign currency or market access risk for these derivative products at December 31, 2011 and 2010.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**7. Net Assets**

**Restricted Net Assets** - The restricted portion of net assets is the result of external constraints placed on net asset use by creditors (such as through debt covenants), grants, contributors, or laws or regulations of other governments or constraints imposed by law through statutory provisions or legislation. Restricted net assets include the following at December 31:

	2011	2010
Recreation plan operations and maintenance	\$ 1,100,490	\$ 1,100,490
Mariposa County water rights settlement	637,107	737,107
Recreation plan future stage construction	6,503	6,503
Total	\$ 1,744,100	\$ 1,844,100

The restrictions are for the following:

- Restricted for recreation plan operations and maintenance represents unspent State of California grant proceeds restricted for the District's recreation plan operations and maintenance.
- Restricted for Mariposa County water rights settlement represents unspent State of California grant proceeds restricted for the remaining unpaid Mariposa County water rights commitment.
- Restricted for recreation plan future stage construction represents unspent State of California grant proceeds restricted for the third stage of onshore recreation facilities improvements, including fishing access sites, at Lake McClure and Lake McSwain in accordance with the District's recreation plan.

**Unrestricted Net Assets** - The Board of Directors has taken action to use current unrestricted resources to satisfy future spending plans. There is no external restriction on these amounts and the future use of these funds may be modified, amended or removed by Board action. Amounts set aside for future spending plans included the following at December 31:

	2011	2010
Electric Services working capital fund	\$ 7,367,875	\$ 7,641,518
Rate stabilization	5,400,000	5,400,000
Livingston Water Conservation projects	1,133,400	1,133,400
Parks capital project reserve	160,000	160,000
Surface/groundwater optimization projects	98,800	98,800
Fleet replacement reserve	47,593	47,593
Total	\$ 14,207,668	\$ 14,481,311

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**7. Net Assets, continued**

The unrestricted net assets set aside for future spending plans are for the following:

- Designated for Electric Services working capital reserve represents the amount set aside for future Electric Services working capital requirements.
- Designated for rate stabilization represents the amount set aside for the funding of future unplanned water pumping costs.
- Designated for Livingston Water Conservation projects represents the amount set aside for future Livingston water improvement projects.
- Designated for parks capital projects represents the amount set aside for future capital projects within the parks.
- Designated for surface/groundwater optimization projects represents the amount set aside for future surface/groundwater capital projects.
- Designated for Fleet Replacement Reserve represents the amounts set aside for future replacement or purchasing of Fleet vehicles.

**8. Employees' Retirement Plan**

***Plan Description*** - The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. All permanent full and part-time District employees working at least 1,000 hours per year are eligible to participate in CalPERS. Under CalPERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor, based on years of service, multiplied by their highest average monthly salary over thirty-six consecutive months of employment. Copies of the CalPERS annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, CA 95811.

***Funding Policy*** - Active plan members are required to contribute 7% of their annual covered salary, which the District contributes a portion or all on behalf of District employees and for their account. Contributions made by the District on behalf of the employees were \$783,195 and \$721,182 for the years ended December 31, 2011 and 2010, respectively. The District is required to contribute at an actuarially determined rate; the rate for January 1 to June 30, 2011 was 11.016% and for July 1 to December 31, 2011 was 11.857%. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

***Annual Pension Cost*** - For the years ending December 31, 2011 and 2010, the District incurred an annual pension cost of \$1,349,444 and \$1,144,759, respectively. The required contribution was determined as part of the June 30, 2008 and 2009 actuarial valuations using entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary in duration of service ranging from 3.25% to 14.45% for miscellaneous members, and (c) 3.25% payroll growth adjustment. Both (a) and (b) include an inflation component of 3%. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period (smoothed market value). The plan's unfunded liability is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2009 was 24 years.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**8. Employees' Retirement Plan, continued**

***Three-Year Trend Information for the District –***

Three-Year Trend Information for the District

	Annual Pension Cost (APC)	Percentage of APC Contributed
December 31, 2009	\$ 1,224,135	100%
December 31, 2010	1,144,759	100%
December 31, 2011	1,159,626	100%

***Funded Status and Funding Progress*** – The actuarial value and funding progress as of December 31, 2011, is set forth below at the most recent actuarial valuation date:

Actuarial Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Assets Value	(Excess Assets) Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a % of Covered Payroll
6/30/2008	\$ 46,096,379	\$ 38,324,737	\$ 7,771,642	83.14%	\$ 10,628,855	73.10%
6/30/2009	50,519,117	40,762,944	9,756,173	80.68%	10,805,144	90.29%
6/30/2010	53,752,166	43,296,042	10,456,124	80.50%	10,672,324	97.97%

Multiyear trend actuarial information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented in the Required Supplementary Information immediately following the notes to the basic financial statements.

**9. Postemployment Health Care Benefits**

***Plan Description*** - The District administers a single employer defined benefit other postemployment healthcare (OPEB) plan providing health plan coverage to eligible retired employees and their eligible dependents. The District maintains the same medical plans for its retirees as for its active employees. Benefits are paid until the retiree, spouse or surviving spouse, becomes eligible for Medicare. Employees become eligible to retire and receive healthcare benefits upon reaching the age of 60 with 5 years of service to the District. The OPEB Plan does not issue a publicly available financial report.

***Funding Policy*** - The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements. For 2011 and 2010, the District contributed \$288,092 and \$218,032, respectively, to the plan, which represents 96% and 93%, respectively, of the cost of current year premiums for eligible retired plan members and their spouses. In 2011, plan members receiving benefits contributed \$16,620, or approximately 4% of the total premiums, through their required contribution of \$90 for spouse coverage and \$120 for family coverage. In 2010, plan members contributed \$15,692, or approximately 7%.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**9. Postemployment Health Care Benefits, continued**

**Annual OPEB Cost and Net OPEB Obligation** - The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for 2011 and 2010, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the OPEB plan:

	2011	2010
Annual required contribution	\$ 359,121	\$ 134,412
Interest on net OPEB obligation	79,385	83,100
Annual required contribution adjustment	(103,282)	(73,792)
Annual OPEB cost	335,224	143,720
Contributions made (premium payment made)	(288,092)	(218,032)
Change in net OPEB obligation	47,132	(74,312)
Net OPEB obligation, beginning of year	1,587,695	1,662,007
Net OPEB obligation, end of year	\$ 1,634,827	\$ 1,587,695

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009, 2010 and 2011 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 151,625	117.00%	\$ 1,662,007
December 31, 2010	143,720	151.71%	1,587,695
December 31, 2011	335,224	85.94%	1,634,827

**Funded Status and Funding Progress** - As of January 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$2,971,500, all of which was unfunded.

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. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**9. Postemployment Health Care Benefits, continued**

*Actuarial Methods and Assumptions* - 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, 2011 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses), which is based on the employer's own investments. The annual healthcare-cost trend rates are as follows: for medical premiums, 10% initially, reduced by 1% decrements to an ultimate rate of 5% after four years; for dental premiums, 7% every other year, with the first assumed July 1, 2010; for vision insurance premiums, 5% every third year, with the next increase in January, 2009. Life insurance premiums are not assumed to change from current levels. The assumptions also include a 3% inflationary factor. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2011 was 30 years.

**10. Insurance**

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials liability, property damage, fidelity, dam failure and workers' compensation insurance. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group-purchased commercial excess insurance is obtained.

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The District's deductibles and maximum coverages are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (Includes public officials liability)	\$ 1,000,000	\$ 59,000,000	None
Property Damage	50,000	100,000,000	\$ 5,000 to 25,000
Fidelity	100,000	-	1,000
Workers' Compensation liability	2,000,000	Statutory	None
Dam failure liability	-	5,000,000	50,000

The District continues to carry commercial insurance for all other risks of loss to which the District is exposed. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Effective January 1, 1996, the District changed to ACWA/JPIA for workers' compensation liability coverage. Prior to January 1, 1996, the District was self-insured for workers' compensation. The District has recorded an accrual of \$17,485 and \$19,919 at December 31, 2011 and 2010, respectively, related to claims that were incurred during the self-insured period.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**11. Commitments and Contingencies**

*Mariposa County Water Rights Settlement* - On March 1, 1960, the District entered into an agreement with Mariposa County regarding stream flow from the Merced River. In 1968, the District agreed to pay \$5,000,000 over 50 years in annual installments of not less than \$100,000, which are due annually on March 1. The agreement is secured by a lien on interest earned on certain accounts held in trust.

*Litigation* - The District is party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the District's legal counsel believe that there are no material loss contingencies that would have a materially adverse impact on the financial position of the District.

*Federal and State Regulatory Issues* - The District has a conditional license with the Federal Energy Regulatory Commission to operate its 1964 Merced River Development Project through February 2014. The District is working to renew this license.

*Contract Commitments* - At December 31, 2011, the District had contract commitments of \$2,667,174 for construction, design, engineering, planning and administrative costs. The District has unexpended approved allocations from existing sources, as well as committed revenues in its funding plan to cover the costs of these contract commitments.

**12. Line of Credit**

The District had a \$7,000,000 line of credit that it allowed to expire on July 14, 2011. After July 14, 2011 and at December 31, 2010, no amounts were outstanding on this line of credit.

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**13. Disclosure of Segment Information**

The District has issued separate revenue bonds to finance its electric and water operations. These operations are accounted for within the District, but investors in those bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each segment is presented below. Electric Services operates the retail electric system. The Water Operations operates the District's irrigation water supply system and consists of the Water Utility, San Joaquin River Agreement, Water Transfers and the Water Utility Facility Improvement Funds.

	2011		2010	
	Electric Services	Water Operations	Electric Services	Water Operations
<b>Condensed Statements of Net Assets</b>				
Assets:				
Capital assets	\$ 68,223,532	\$ 35,620,602	\$ 69,688,481	\$ 33,158,879
Other assets	3,498,664	51,454	3,778,553	63,290
Interfund receivables	18,731,734	13,513,795	13,857,443	22,353,285
Current assets	6,661,462	12,363,377	7,236,160	12,218,541
Total assets	<u>97,115,392</u>	<u>61,549,228</u>	<u>94,560,637</u>	<u>67,793,995</u>
Liabilities:				
Long-term and other liabilities	86,639,039	8,955,768	88,727,176	6,585,014
Interfund payables	-	(9,120,878)	154,925	379,370
Other current liabilities	(2,785,620)	2,232,325	(1,078,937)	4,648,693
Total liabilities	<u>83,853,419</u>	<u>2,067,215</u>	<u>87,803,164</u>	<u>11,613,077</u>
Net assets:				
Invested in capital assets, net of related debt	(8,380,708)	31,817,435	(8,038,953)	28,822,405
Restricted	-	637,107	-	737,107
Unrestricted	21,642,681	27,027,471	14,796,426	26,621,406
Total net assets	<u>\$ 13,261,973</u>	<u>\$ 59,482,013</u>	<u>\$ 6,757,473</u>	<u>\$ 56,180,918</u>

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**13. Disclosure of Segment Information, continued**

	2011		2010	
	Electric Services	Water Operations	Electric Services	Water Operations
<b>Condensed Statements of Revenues, Expenses and Changes in Net Assets</b>				
Operating revenues (pledged against bonds)	\$ 49,902,766	\$ 12,816,676	\$ 49,096,785	\$ 15,922,754
Depreciation and amortization expense	(2,746,456)	(1,547,178)	(2,732,488)	(1,550,003)
Other operating expenses	(36,196,903)	(12,614,680)	(40,496,619)	(13,940,170)
Operating income	<u>10,959,407</u>	<u>(1,345,182)</u>	<u>5,867,678</u>	<u>432,581</u>
Non-operating revenues (expenses):				
Property taxes	-	1,945,624	-	1,945,466
Other non-operating revenues	143,030	492,571	556,911	639,530
Interest expense	(4,658,991)	(248,931)	(4,775,939)	(270,942)
Non-operating revenues (expenses), net	<u>(4,515,961)</u>	<u>2,189,264</u>	<u>(4,219,028)</u>	<u>2,314,054</u>
Income before transfers and capital contributions	6,443,446	844,082	1,648,650	2,746,635
Capital contributions	58,191	2,336,561	167,506	94,125
Transfers in	26,753	128,948	10,292	857,446
Transfers out	<u>(23,890)</u>	<u>(8,496)</u>	<u>(362,465)</u>	<u>(97,700)</u>
Changes in net assets	6,504,500	3,301,095	1,463,983	3,600,506
Beginning net assets	<u>6,757,473</u>	<u>56,180,918</u>	<u>5,293,490</u>	<u>52,580,412</u>
Ending net assets	<u>\$ 13,261,973</u>	<u>\$ 59,482,013</u>	<u>\$ 6,757,473</u>	<u>\$ 56,180,918</u>

	2011		2010	
	Electric Services	Water Operations	Electric Services	Water Operations
<b>Condensed Statements of Cash Flows</b>				
Net cash provided by (used in):				
Operating activities	\$ 6,597,811	\$ (18,470)	\$ (2,424,336)	\$ (11,205,911)
Noncapital financing activities	115,535	2,309,964	526,359	2,705,687
Capital and related financing activities	(7,285,525)	(2,405,684)	(6,834,655)	(2,006,073)
Investing activities	24,283	47,668	25,266	65,154
Net increase (decrease)	<u>(547,896)</u>	<u>(66,522)</u>	<u>(8,707,366)</u>	<u>(10,441,143)</u>
Cash and cash equivalents, beginning of year	<u>8,625,169</u>	<u>8,795,058</u>	<u>17,332,535</u>	<u>19,236,201</u>
Cash and cash equivalents, end of year	<u>\$ 8,077,273</u>	<u>\$ 8,728,536</u>	<u>\$ 8,625,169</u>	<u>\$ 8,795,058</u>

**MERCED IRRIGATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**13. Disclosure of Segment Information, continued**

Cash is used within the District by different funds for various operations and this use of another fund's cash is recorded on the statement of net assets as due to other funds and due from other funds. As of December 31, 2011 and 2010, the amounts of unrestricted cash balances available to the District's segments, in addition to those amounts specifically reported as cash on the fund statements of net assets, can be calculated from the condensed statements of net assets above by subtracting the interfund payable amount from the interfund receivable amounts.



**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**MERCED IRRIGATION DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SCHEDULES OF FUNDING PROGRESS**

For the Years Ended December 31, 2011

**Schedule of Funding Progress for the Postemployment Health Care Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Simplified 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)
January 1, 2008	\$ -	\$ 1,873,768	\$ 1,873,768	0%	N/A	N/A

**Schedule of Funding Progress for the Employees Retirement Plan**

Actuarial Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Assets Value	(Excess Assets) Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a % of Covered Payroll
6/30/2008	\$ 46,096,379	\$ 38,324,737	\$ 7,771,642	83.14%	\$ 10,628,855	73.10%
6/30/2009	50,519,117	40,762,944	9,756,173	80.68%	10,805,144	90.29%
6/30/2010	53,752,166	43,296,042	10,456,124	80.50%	10,672,324	97.97%

**SUPPLEMENTARY INFORMATION**

**MERCED IRRIGATION DISTRICT**  
**COMBINING STATEMENT OF NET ASSETS**

December 31, 2011

<u>Assets</u>	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
Capital assets:					
Non-depreciable	\$ 6,050,375	\$ 7,744,887	\$ 13,017,228	\$ 1,890,834	\$ -
Depreciable	62,173,157	27,861,987	18,476,991	1,603,436	1,005,606
Capital assets, net	<u>68,223,532</u>	<u>35,606,874</u>	<u>31,494,219</u>	<u>3,494,270</u>	<u>1,005,606</u>
Other noncurrent assets:					
Deferred relicense costs	-	-	-	-	-
Debt issuance costs	3,498,664	51,454	-	-	-
Regulatory costs for future recovery	-	-	-	-	-
Total other noncurrent assets	<u>3,498,664</u>	<u>51,454</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current assets:					
Cash and cash equivalents <sup>1</sup>	-	7,462,830	-	920	-
Accounts receivable, net	4,239,143	607,401	4,646	84,729	3,470
Due from other governmental agencies	35,915	1,345,302	23,884	7,193	7,017
Accrued interest and taxes receivable	5,085	873,537	3	9	127,792
Inventory	3,873,609	239,287	-	-	-
Prepaid expenses and other current assets	67,018	226,217	152,334	53,846	3,769
Due from other funds	18,731,734	-	-	-	694,211
Restricted cash and cash equivalents	8,077,273	1,265,706	1,177,801	1,106,993	-
Derivative financial instruments	(9,636,581)	-	-	-	-
Total current assets	<u>25,393,196</u>	<u>12,020,280</u>	<u>1,358,668</u>	<u>1,253,690</u>	<u>836,259</u>
Total assets	<u>\$ 97,115,392</u>	<u>\$ 47,678,608</u>	<u>\$ 32,852,887</u>	<u>\$ 4,747,960</u>	<u>\$ 1,841,865</u>

<sup>1)</sup> Cash balances for various funds are maintained in the General operations Fund as of December 31, 2011. For comparison to prior years, individual fund cash balances can be determined by netting the due to other funds and the due from other funds balances.

San Joaquin River Agreement Fund	Water Transfers	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ -	\$ -	\$ 13,728	\$ -	\$ 24,838	\$ 10,100	\$ -	\$ 28,751,990
-	-	-	-	477,223	159,965	-	111,758,365
-	-	13,728	-	502,061	170,065	-	140,510,355
-	-	-	17,542,443	-	-	-	17,542,443
-	-	-	295,186	-	-	-	3,845,304
-	-	-	5,740,813	-	-	-	5,740,813
-	-	-	23,578,442	-	-	-	27,128,560
-	-	-	-	30,950,808	43,296	-	38,457,854
-	-	-	-	483,988	186,866	(473,922)	5,136,321
243,942	89,253	-	-	664	-	-	1,753,170
-	-	-	86	-	-	-	1,006,512
-	-	-	-	-	153,988	-	4,266,884
9,902	-	-	-	132,015	16,592	-	661,693
30,352,544	8,612,344	-	-	-	139,626	(58,530,459)	-
-	-	-	9,468,504	-	-	-	21,096,277
-	-	-	-	-	-	-	(9,636,581)
30,606,388	8,701,597	-	9,468,590	31,567,475	540,368	(59,004,381)	62,742,130
\$ 30,606,388	\$ 8,701,597	\$ 13,728	\$ 33,047,032	\$ 32,069,536	\$ 710,433	\$ (59,004,381)	\$ 230,381,045

**MERCED IRRIGATION DISTRICT**  
**COMBINING STATEMENT OF NET ASSETS (CONTINUED)**

December 31, 2011

<u>Liabilities and Net Assets</u>	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
Long-term liabilities	\$ 83,242,223	\$ 5,154,077	\$ 3,028,836	\$ 375,964	\$ 4,096
Other liabilities:					
Deferred revenue	2,888,937	-	-	-	-
Deposits	507,879	512,247	-	-	-
Total other liabilities	<u>3,396,816</u>	<u>512,247</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current liabilities:					
Accounts payable	147,596	1,147,478	267,359	44,766	56
Accrued liabilities	3,661,716	560,810	924,974	(2,036)	-
Deferred revenue	-	11,252	17,268	6,435	-
Accrued interest payable	1,113,969	50,974	78,188	-	-
Due to other funds	-	16,269,951	2,096,815	6,753,291	-
Deferred credit - unrealized gain (loss) on swap contracts	(9,636,581)	-	-	-	-
Current portion of long-term debt	1,927,680	435,000	1,470,000	-	-
Total current liabilities	<u>(2,785,620)</u>	<u>18,475,465</u>	<u>4,854,604</u>	<u>6,802,456</u>	<u>56</u>
Total liabilities	<u>83,853,419</u>	<u>24,141,789</u>	<u>7,883,440</u>	<u>7,178,420</u>	<u>4,152</u>
Net assets:					
Invested in capital assets, net of related debt	(8,380,708)	31,803,707	28,502,019	3,494,270	1,005,606
Restricted	-	637,107	-	1,106,993	-
Unrestricted	21,642,681	(8,903,995)	(3,532,572)	(7,031,723)	832,107
Total net assets	<u>13,261,973</u>	<u>23,536,819</u>	<u>24,969,447</u>	<u>(2,430,460)</u>	<u>1,837,713</u>
Total liabilities and net assets	<u>\$ 97,115,392</u>	<u>\$ 47,678,608</u>	<u>\$ 32,852,887</u>	<u>\$ 4,747,960</u>	<u>\$ 1,841,865</u>

San Joaquin River Agreement Fund	Water Transfers	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ 89,444	\$ -	\$ -	\$ 28,441,135	\$ 322,034	\$ -	\$ -	\$ 120,657,809
-	3,200,000	-	-	-	-	-	6,088,937
-	-	-	-	6,378	-	-	1,026,504
-	3,200,000	-	-	6,378	-	-	7,115,441
14,860	11,935	-	175,612	88,466	33,502	-	1,931,630
16	-	-	348,767	402,515	20,816	-	5,917,578
-	-	-	-	-	-	-	34,955
-	-	-	-	-	-	-	1,243,131
-	-	60,264	1,918,041	31,292,471	613,548	(59,004,381)	-
-	-	-	-	-	-	-	(9,636,581)
-	-	-	-	-	-	-	3,832,680
14,876	11,935	60,264	2,442,420	31,783,452	667,866	(59,004,381)	3,323,393
104,320	3,211,935	60,264	30,883,555	32,111,864	667,866	(59,004,381)	131,096,643
-	-	13,728	-	502,061	-	-	56,940,683
-	-	-	-	-	-	-	1,744,100
30,502,068	5,489,662	(60,264)	2,163,477	(544,389)	42,567	-	40,599,619
30,502,068	5,489,662	(46,536)	2,163,477	(42,328)	42,567	-	99,284,402
\$ 30,606,388	\$ 8,701,597	\$ 13,728	\$ 33,047,032	\$ 32,069,536	\$ 710,433	\$ (59,004,381)	\$ 230,381,045

# MERCED IRRIGATION DISTRICT

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the year ended December 31, 2011

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
Operating revenues:					
Electric sales and services	\$ 49,902,766	\$ -	\$ -	\$ -	\$ -
Water sales and services	-	9,613,418	-	-	-
Hydroelectric contractual services	-	-	5,819,743	-	-
Water transfers	-	-	-	-	-
Recreation fees	-	-	-	1,554,226	-
Administrative services	-	-	-	-	-
Storm drainage fees	-	-	-	-	7,443
Concessionaire revenue	-	-	-	-	-
Total operating revenues	<u>49,902,766</u>	<u>9,613,418</u>	<u>5,819,743</u>	<u>1,554,226</u>	<u>7,443</u>
Operating expenses					
Purchase of power	27,061,112	-	-	-	-
Water distribution	-	10,375,043	-	-	-
Electric transmission and distribution	7,863,059	-	4,096,784	-	-
Recreation	-	-	-	2,362,824	-
Concessionaire	-	-	-	-	-
Storm drainage	-	-	-	-	25,593
Administrative and general	1,272,732	1,373,354	376,875	(58,390)	144,024
Depreciation and amortization	2,746,456	1,547,178	741,488	293,843	49,193
Total operating expenses	<u>38,943,359</u>	<u>13,295,575</u>	<u>5,215,147</u>	<u>2,598,277</u>	<u>218,810</u>
Net income (loss) from operations	<u>10,959,407</u>	<u>(3,682,157)</u>	<u>604,596</u>	<u>(1,044,051)</u>	<u>(211,367)</u>
Non-operating revenue (expenses)					
Property taxes	-	1,945,624	-	-	296,542
Interest income	23,286	46,059	49	109	199
Other non-operating income	115,535	404,890	43,026	222	11
Gain on disposal of capital assets	4,209	41,616	-	29,168	-
Interest expense	(4,658,991)	(248,931)	(169,781)	-	-
Transfers in	26,753	128,149	-	-	-
Transfers out	(23,890)	(7,697)	(28,787)	(66,934)	(27,594)
Total non-operating revenue (expenses)	<u>(4,513,098)</u>	<u>2,309,710</u>	<u>(155,493)</u>	<u>(37,435)</u>	<u>269,158</u>
Net income (loss) before capital contributions	<u>6,446,309</u>	<u>(1,372,447)</u>	<u>449,103</u>	<u>(1,081,486)</u>	<u>57,791</u>
Capital contributions	58,191	2,336,561	2,318,273	42	-
Change in net assets	<u>6,504,500</u>	<u>964,114</u>	<u>2,767,376</u>	<u>(1,081,444)</u>	<u>57,791</u>
Net assets, beginning of year	<u>6,757,473</u>	<u>22,572,705</u>	<u>22,202,071</u>	<u>(1,349,016)</u>	<u>1,779,922</u>
Net assets, end of year	<u>\$ 13,261,973</u>	<u>\$ 23,536,819</u>	<u>\$ 24,969,447</u>	<u>\$ (2,430,460)</u>	<u>\$ 1,837,713</u>

San Joaquin River Agreement Fund	Water Transfers	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,902,766
-	-	-	-	-	-	-	9,613,418
-	-	-	-	-	-	-	5,819,743
3,114,005	89,253	-	-	-	-	-	3,203,258
-	-	-	-	-	-	-	1,554,226
-	-	-	-	3,646,229	-	(3,646,229)	-
-	-	-	-	-	-	-	7,443
-	-	-	-	-	1,361,010	-	1,361,010
<u>3,114,005</u>	<u>89,253</u>	<u>-</u>	<u>-</u>	<u>3,646,229</u>	<u>1,361,010</u>	<u>(3,646,229)</u>	<u>71,461,864</u>
-	-	-	-	-	-	-	27,061,112
585,412	81,572	-	-	-	-	-	11,042,027
-	-	-	-	-	-	(23,000)	11,936,843
-	-	-	-	-	-	-	2,362,824
-	-	-	-	-	239,164	-	239,164
-	-	-	-	-	-	-	25,593
199,299	-	-	-	3,731,663	1,084,027	(3,623,229)	4,500,355
-	-	-	22,107	93,027	-	-	5,493,292
<u>784,711</u>	<u>81,572</u>	<u>-</u>	<u>22,107</u>	<u>3,824,690</u>	<u>1,323,191</u>	<u>(3,646,229)</u>	<u>62,661,210</u>
<u>2,329,294</u>	<u>7,681</u>	<u>-</u>	<u>(22,107)</u>	<u>(178,461)</u>	<u>37,819</u>	<u>-</u>	<u>8,800,654</u>
-	-	-	-	-	-	-	2,242,166
-	-	-	1,133	90,064	-	-	160,899
6	-	-	-	88,397	4,748	-	656,835
-	-	-	-	-	-	-	74,993
-	-	-	20,974	-	-	-	(5,056,729)
799	-	-	-	-	-	(155,701)	-
(799)	-	-	-	-	-	155,701	-
<u>6</u>	<u>-</u>	<u>-</u>	<u>22,107</u>	<u>178,461</u>	<u>4,748</u>	<u>-</u>	<u>(1,921,836)</u>
<u>2,329,300</u>	<u>7,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,567</u>	<u>-</u>	<u>6,878,818</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,713,067</u>
<u>2,329,300</u>	<u>7,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,567</u>	<u>-</u>	<u>11,591,885</u>
<u>28,172,768</u>	<u>5,481,981</u>	<u>(46,536)</u>	<u>2,163,477</u>	<u>(42,328)</u>	<u>-</u>	<u>-</u>	<u>87,692,517</u>
<u>\$ 30,502,068</u>	<u>\$ 5,489,662</u>	<u>\$ (46,536)</u>	<u>\$ 2,163,477</u>	<u>\$ (42,328)</u>	<u>\$ 42,567</u>	<u>\$ -</u>	<u>\$ 99,284,402</u>

**MERCED IRRIGATION DISTRICT**  
**COMBINING STATEMENT OF CASH FLOWS**

December 31, 2011

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
Cash flows from operating activities:					
Cash receipts from customers	\$ 50,627,721	\$ 8,699,743	\$ 5,334,410	\$ 1,586,323	\$ (750)
Cash paid to suppliers for goods and services	(38,455,587)	(7,434,139)	(2,727,014)	(1,208,791)	(309,422)
Cash paid to employees for services	(1,819,119)	(5,110,895)	(1,274,509)	(1,228,693)	-
Cash receipts/payments to other funds	(3,755,204)	3,826,827	254,028	1,022,443	33,771
Net cash provided by (used for) operating activities	<u>6,597,811</u>	<u>(18,464)</u>	<u>1,586,915</u>	<u>171,282</u>	<u>(276,401)</u>
Cash flows from noncapital financing activities:					
Non-operating interfund transfers	-	-	-	-	-
Property taxes received	-	1,905,068	-	-	276,191
Relicense costs incurred	-	-	-	-	-
Interest payments on long-term debt	-	-	-	-	-
Other income/expenses	115,535	404,890	43,026	15,472	11
Net cash provided by (used for) noncapital financing activities	<u>115,535</u>	<u>2,309,958</u>	<u>43,026</u>	<u>15,472</u>	<u>276,202</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital asset:	(957,256)	(1,819,838)	(2,318,275)	(235,399)	-
Proceeds from the sale of equipment	4,209	196,494	-	48,494	-
Reimbursements received for capital assets	13,829	4,456	2,318,273	42	-
Principal payments on long-term debt	(1,843,183)	(575,000)	(1,415,000)	-	-
Interest payments on long-term debt	(4,503,124)	(211,796)	(196,312)	-	-
Net cash provided by (used for) capital and related financing ac	<u>(7,285,525)</u>	<u>(2,405,684)</u>	<u>(1,611,314)</u>	<u>(186,863)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received on investments	24,283	47,668	61	109	199
Net cash provided by investing activities	<u>24,283</u>	<u>47,668</u>	<u>61</u>	<u>109</u>	<u>199</u>
Increase (decrease) in cash	(547,896)	(66,522)	18,688	-	-
Cash and cash equivalents, beginning of ye	8,625,169	8,795,058	1,159,113	1,107,913	-
Cash and cash equivalents, end of year	<u>\$ 8,077,273</u>	<u>\$ 8,728,536</u>	<u>\$ 1,177,801</u>	<u>\$ 1,107,913</u>	<u>\$ -</u>

San Joaquin River Agreement Fund	Water Transfers	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ 3,833,355	\$ 50,000	\$ -	\$ -	\$ 3,182,542	\$ 1,174,144	\$ (3,172,308)	\$ 71,315,180
(838,302)	(82,685)	-	(256,242)	(1,827,067)	(897,050)	7,269,457	(46,766,842)
(173,122)	-	-	-	(1,647,142)	(542,402)	-	(11,795,882)
(2,821,937)	32,685	-	256,242	4,774,373	473,921	(4,097,149)	-
(6)	-	-	-	4,482,706	208,613	-	12,752,456
-	-	-	(279,665)	279,665	-	-	-
-	-	-	-	-	-	-	2,181,259
-	-	-	(3,840,670)	-	-	-	(3,840,670)
-	-	-	22,372	-	-	-	22,372
6	-	-	-	88,396	4,748	-	672,084
6	-	-	(4,097,963)	368,061	4,748	-	(964,955)
-	-	-	-	(57,964)	(170,065)	-	(5,558,797)
-	-	-	-	14,253	-	-	263,450
-	-	-	-	-	-	-	2,336,600
-	-	-	-	-	-	-	(3,833,183)
-	-	-	-	-	-	-	(4,911,232)
-	-	-	-	(43,711)	(170,065)	-	(11,703,162)
-	-	-	1,163	90,064	-	-	163,547
-	-	-	1,163	90,064	-	-	163,547
-	-	-	(4,096,800)	4,897,120	43,296	-	247,886
-	-	-	13,565,304	26,053,688	-	-	59,306,245
\$ -	\$ -	\$ -	\$ 9,468,504	\$ 30,950,808	\$ 43,296	\$ -	\$ 59,554,131

# MERCED IRRIGATION DISTRICT

## COMBINING STATEMENT OF CASH FLOWS (CONTINUED)

December 31, 2011

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
Reconciliation of net income (loss) from operations to net cash provided by (used for) operating activities:					
Net income (loss) from operations	\$ 10,959,407	\$ (3,682,157)	\$ 604,596	\$ (1,044,051)	\$ (211,367)
Adjustments to reconcile net income (loss) from operations to net cash provided by (used for) operating activities:					
Depreciation and amortization	2,746,456	1,547,178	741,488	293,843	49,192
Transfers to/from other funds	2,863	120,452	(28,787)	(66,934)	(27,594)
Changes in operating assets and liabilities:					
Accounts receivable	866,559	98,418	(4,588)	25,662	(1,176)
Due from other governmental agencies	223,349	(913,031)	-	-	(7,017)
Inventory	210,898	(12,375)	-	-	-
Prepaid expenses and other current assets	48,554	(24,363)	(29,108)	(9,345)	2,636
Accounts payable	(128,188)	747,186	(9,152)	(142,699)	(83)
Accrued liabilities	(2,950,031)	184,504	827,702	(3,654)	-
Deferred revenue	-	(5,000)	(480,745)	6,435	-
Due to/from other funds	(5,029,216)	2,327,793	(92,784)	1,089,377	(80,992)
Deposits	(272,137)	(94,062)	-	-	-
Deferred public purpose program revenues	(92,816)	-	-	-	-
Accrued postemployment benefits	57,198	(142,820)	38,114	34,197	-
Accrued compensated absences	(45,085)	(170,187)	20,179	(11,549)	-
	<u>\$ 6,597,811</u>	<u>\$ (18,464)</u>	<u>\$ 1,586,915</u>	<u>\$ 171,282</u>	<u>\$ (276,401)</u>
Noncash investing, capital and financing activities:					
Receipt of contributed electric system assets from developers	<u>\$ 44,362</u>	<u>\$ 2,332,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in derivative financial instruments	<u>\$ 1,323,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

San Joaquin River Agreement Fund	Water Transfers	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ 2,329,294	\$ 7,681	\$ -	\$ (22,107)	\$ (178,461)	\$ 37,819	\$ -	\$ 8,800,654
-	-	-	22,107	93,027	-	-	5,493,291
-	-	-	-	(279,665)	-	279,665	-
-	-	-	-	2,603	(186,866)	-	800,612
719,350	(39,253)	-	-	9,584	-	-	(7,018)
-	-	-	-	-	(153,988)	-	44,535
(1,157)	-	-	-	(20,282)	(16,592)	-	(49,657)
2,981	(1,113)	-	-	32,851	33,502	-	535,285
(254)	-	-	-	118,034	20,816	-	(1,802,883)
-	-	-	-	-	-	-	(479,310)
(3,021,236)	32,685	-	-	4,580,116	473,922	(279,665)	-
-	-	-	-	(1,952)	-	-	(368,151)
-	-	-	-	-	-	-	(92,816)
4,239	-	-	-	56,204	-	-	47,132
(33,223)	-	-	-	70,647	-	-	(169,218)
<u>\$ (6)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,482,706</u>	<u>\$ 208,613</u>	<u>\$ -</u>	<u>\$ 12,752,456</u>
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,376,467</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,323,555</u>

**MERCED IRRIGATION DISTRICT**

**2011 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP AND BONDS -  
ELECTRIC SERVICES**

December 31, 2011

Net income	\$	6,504,500
Add back:		
Depreciation and amortization expense		2,746,456
Bond interest expense		4,647,909
Less:		
Capital contribution revenue		<u>(58,191)</u>
Reconciled net revenue	\$	<u><u>13,840,674</u></u>
2011 COP debt service related to outstanding COPs and Bonds	\$	<u><u>6,260,769</u></u>
Debt service coverage		<u><u>221%</u></u>
Required debt service coverage		<u><u>125%</u></u>

**MERCED IRRIGATION DISTRICT**

**2011 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP AND BONDS -  
WATER SERVICES**

December 31, 2011

Net income	\$	3,301,095
Add back:		
Depreciation and amortization expense		1,547,178
Bond interest expense		248,931
Less:		
Capital contribution revenue		<u>(2,336,561)</u>
Reconciled net revenue	\$	<u>2,760,643</u>
2011 COP debt service related to outstanding COPs	\$	<u>786,795</u>
Debt service coverage		<u>351%</u>
Required debt service coverage		<u>120%</u>