

**MERCED IRRIGATION DISTRICT**

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**FINANCIAL STATEMENTS**

For the year ended March 31, 2014

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# MERCED IRRIGATION DISTRICT

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Merced Irrigation District  
Merced, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Merced Irrigation District (the District) as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of March 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedules of Funding Progress on pages 3-10 and 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining statements and debt service coverage calculations, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements and debt service coverage calculations are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and debt service coverage calculations are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Burr Pilger Mayer, Inc.*

Burr Pilger Mayer, Inc.  
San Jose, California  
June 26, 2014



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2014

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 March 31, 2014. The District's 2012/13 and 2011 financial results have been presented for purposes of providing comparative data, with the understanding that 2012/13 is for 15 months, due to an accounting period change that incurred during that time, and 2011 is for the calendar year ended December 31, 2011. The 2011 numbers have been restated to match the new presentation required in GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This discussion and analysis should be read in conjunction with the financial statements, including the notes to the financial statements that begin on page 17.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, changes the name and format of required audited financial reports. What was historically called the *Statement of Net Assets* is now referred to as the *Statement of Net Position*. The *Statement of Net Position* presents combined assets and deferred outflows of resources, less combined liabilities and deferred inflows of resources, resulting with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The *Statement of Net Position* provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The *Statement of Revenues, Expenses, and Changes in Net Position* measure the success of the District's operations during the year and determine whether the District has recovered its costs through user fees and other charges, resulting in the changes in net position.

The *Statement of Cash Flows* provides information about the District's cash receipts and cash payments resulting from operating, financing, and investing 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 five major operational enterprises: Water Resources, Parks and Recreation, Hydroelectric, Energy Resources, and Storm Drainage.

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

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The District provides surface irrigation water to approximately 100,000 acres within its 165,000 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 305,000 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 Stevinson Water District and 15,000 acre feet to Merced National Wildlife Refuge at no cost; both are located westerly of the District. The District distributes water through 723 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 2013, the District delivered 265,000 acre feet of irrigation water to approximately 102,000 acres, and 2,250 fields farmed by 2,200 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 Improvement District #1 (MIDDID#1) in 1994. As of March 31, 2014, there were approximately 15,000 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 seventh boat launch facility on Lake McClure, at McClure Point. The completion date is dependent on the State's 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, as well as two locations on Lake McClure, for the boating public. Recreational activities enjoyed in the recreation areas include fishing, boating, swimming, camping, hiking and bicycling. For the season ending March 31, 2014, the various Parks locations had approximately 285,000 combined visitor days. In addition, the District maintains three fishing access locations on the Merced River, downstream from the lakes.

In 2011, the District formed the Twin Lakes Management Company, Inc (TLMC) as a separate company to operate the marina and lake recreation concessions on both Lake McSwain and Lake McClure. These concessions were previously 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. 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). Lake McClure has a maximum storage capacity of 1,024,600 acre feet, while 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.

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

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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 July 2014, the hydroelectric project will transition from PG&E to the District. The hydroelectric project will be treated as a standalone department, but is a water asset. The revenue generated by selling the energy the plant generates and the capacity of the project, as well as the expenses incurred that have previously been reimbursed by PG&E, will be tracked in the Hydroelectric Department.

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 8,037 customers to the District's electric system as of March 31, 2014. Electric peak demand at the height of the 2013 summer season was approximately 100.7 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 Position*; (2) *Statement of Revenues, Expenses, and Changes in Net Position*; 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 of both the combined financial statements, as well as supplemental combining financial statements which portray the individualized major component funds.

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 Position* 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 Position*. 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 year, as well as net changes in cash resulting from operating, financing, and investing activities. The statement explains where cash came from, where cash was used and the change in the cash balance during the reporting year.

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

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**Financial Highlights**

- The District's total assets increased by \$3.9 million for the year ended March 31, 2014. The increase is due to increased cash due to operating activities. The total liabilities remain consistent at \$141 million when compared to March 31, 2013. There is an overall decrease of long term liabilities of \$1 million. The deferred outflow of resources remained consistent at \$2.4 million as compared to March 31, 2013. Deferred inflow of resources decreased by \$200,000 when compared to March 31, 2013.
- 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 \$22.6 million on relicensing costs as of March 31, 2014. The current license expired on February 28, 2014; however, the District was granted a one year extension of the current license through February 28, 2015 and expects automatic one year extensions will be granted until a new operating license is granted by the FERC. The District fully expects the FERC to grant a new license in 2015.
- Operating revenues of \$79 million and operating expenses of \$73 million resulted in net income from operations of \$5.6 million. Net non-operating expense of \$1.5 million is the result of total non-operating revenue of \$3.6 million offset by interest expense of \$5.1 million. The District also received capital contributions totaling \$676,000.
- The District's total cash and cash equivalents increased by \$5 million for the year ended March 31, 2014. This was primarily due to a \$4.5 million water transfer that occurred in September 2013. The District entered into this transfer to fund the (1) Master Water Plan; (2) transition of the hydroelectric project from PG&E to the District; (3) the FERC relicensing; and (4) specific legal expenses related to defense of the District's water rights.

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

**Financial Analysis of the District**

The District's Condensed Statements of Net Position are as follows:

	March 31, 2014	March 31, 2013	Dec. 31, 2011
	<u>Total</u>	<u>Total</u>	<u>Total</u>
<b>Assets</b>			
Capital assets, net	\$ 147,701,559	\$ 151,856,544	\$ 140,510,355
Total other non-current assets	49,796,644	53,070,013	27,128,560
Total current assets	61,736,808	50,385,746	72,378,711
Total assets	<u>259,235,011</u>	<u>255,312,303</u>	<u>240,017,626</u>
<b>Deferred Outflows of Resources</b>			
Deferred amount on debt refunding	2,566,336	2,832,374	3,184,260
Deferred gas charges	389,222	-	-
Accumulated decrease in fair value of hedging derivatives	(513,551)	(460,945)	(9,636,581)
Total deferred outflows of resources	<u>2,442,007</u>	<u>2,371,429</u>	<u>(6,452,321)</u>
Total assets and deferred outflows of resources	<u>\$ 261,677,018</u>	<u>\$ 257,683,732</u>	<u>\$ 233,565,305</u>
<b>Liabilities</b>			
Long-term liabilities	\$ 121,391,626	\$ 122,473,318	\$ 123,842,069
Total other liabilities	10,570,646	3,416,591	7,115,441
Total current liabilities	9,510,610	16,102,296	10,071,037
Total liabilities	<u>141,472,882</u>	<u>141,992,205</u>	<u>141,028,547</u>
<b>Deferred Inflows of Resources</b>			
Public purpose revenues	1,073,881	1,234,926	2,088,937
Power cost reductions	800,000	800,000	800,000
Accumulated increase in fair value of hedging derivatives	(513,551)	(460,945)	(9,636,581)
Total deferred inflows of resources	<u>1,360,330</u>	<u>1,573,981</u>	<u>(6,747,644)</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	65,801,230	70,364,183	56,940,683
Restricted	1,544,100	1,544,100	1,744,100
Unrestricted	51,498,476	42,209,263	40,599,619
Total net position	<u>118,843,806</u>	<u>114,117,546</u>	<u>99,284,402</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 261,677,018</u>	<u>\$ 257,683,732</u>	<u>\$ 233,565,305</u>

**MERCED IRRIGATION DISTRICT**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**Condensed Capital Assets Detail, Net of Accumulated Depreciation**

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Land	\$ 13,098,088	\$ 13,144,380
Construction in progress	20,160,236	24,398,070
Goodwill	10,100	10,100
Landscaping	4,961,161	779,563
Building and structures	24,354,200	25,110,110
Distribution system	78,531,499	81,867,811
Machinery and equipment	4,866,280	4,630,731
Vehicles	640,012	619,916
Intangible plant	1,079,983	1,295,863
Total capital assets	<u>\$ 147,701,559</u>	<u>\$ 151,856,544</u>

**Significant Capital Asset Activity** – Overall, capital assets decreased by \$4.2 million to \$148 million as of March 31, 2014 when compared to March 31, 2013, due to depreciation and partly due to a decrease in capital spend in the 2013/14 Fiscal Year and asset disposals. The District completed improvements to its water distribution system, which spanned multiple years, in the year ended March 31, 2014 in conjunction with State funded Highway improvements, with the majority of the spend occurring prior to March 31, 2013.

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 \$1.1 million in the year ended March 31, 2014 as compared to a decrease of \$1.3 million in 2013. At March 31, 2014, the District had long-term debt outstanding of \$121.4 million as compared to \$122.5 million at March 31, 2013 and \$123.8 million at December 31, 2011. The District refunded and defeased \$10.2 million of the 2005 Revenue Certificates of Participation in September 2012, with a Net Present Value (“NPV”) Savings of \$780,000 (7.65%) and an annual cash savings of \$75,000. The District refunded and defeased the 2003 Revenue Certificates of Participation in June 2013 with a NPV savings of \$1,783,000 (13.8%) and an annual cash savings of \$112,000. For additional information about the District’s long-term debt, see Note 5 of the financial statements.

**Significant Net Position Activity** – The District’s net investment in capital assets decreased by \$4.6 million for the year ended March 31, 2014 as compared to an increase of \$13.4 million in the fifteen months ending March 31, 2013. This corresponds with the District’s capital related debt caused by the refunding of the 2003 debt, coupled with the continued use of the FERC funding. The balance of net position is comprised of \$1.5 million of restricted net position, which are subject to external restrictions on their use, and \$51.5 million of unrestricted net position. The District’s assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by \$118.8 million.

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

The District's Condensed Statements of Revenues, Expenses, and Changes in Net Position are as follows:

	<u>March 31, 2014</u>	<u>March 31, 2013</u>	<u>Dec. 31, 2011</u>
Operating Revenue	\$ 78,637,109	\$ 90,101,155	\$ 71,461,864
Operating Expense	<u>73,141,254</u>	<u>79,743,407</u>	<u>62,661,210</u>
Net Income	5,495,855	10,357,748	8,800,654
Non-operating revenue (expense)	<u>(1,445,717)</u>	<u>(3,146,546)</u>	<u>(1,921,836)</u>
Net Income before capital contribution	4,050,138	7,211,202	6,878,818
Capital Contributions	<u>676,122</u>	<u>9,132,946</u>	<u>4,713,067</u>
Change in net position	<u>4,726,260</u>	<u>16,344,148</u>	<u>11,591,885</u>
Net position, beginning	<u>114,117,546</u>	<u>97,773,398</u>	<u>87,692,517</u>
Net position, end	<u><u>\$ 118,843,806</u></u>	<u><u>\$ 114,117,546</u></u>	<u><u>\$ 99,284,402</u></u>

Net income from operations is \$5.5 million for the year ended March 31, 2014, which is a decrease from \$10.4 million net income from operations for the fifteen months ending March 31, 2013. The \$4.9 million dollar decrease is due to a combination of an increase in the NP-15 portion of the power costs, a large increase in solar customers that enjoy subsidized rates under California's Net Energy Metering law; as well as California's new Cap and Trade program that had the impact of increasing the NP-15 portion of the District's power costs. The change in the fiscal periods between the fifteen months for last year 2012/13 compared to the twelve months for 2013/14 make up the remaining difference between the two years equal to a decrease of \$1.8 million.

In the year ended March 31, 2014 net non-operating expense of \$1.4 million is the result of non-operating revenue of \$3.7 million offset by interest expense of \$5.1 million.

Capital contribution revenue of \$676,000 is comprised of non-cash developer contributions and third-party cash proceeds used for capital projects. The decrease in capital contribution revenue of \$8.5 million for the year ended March 31, 2014 is due to a decrease in hydroelectric capital project expenditures reimbursable from PG&E and continued use of the FERC funding.

**Economic Factors and Rates**

The 2013 Water Year (October 1, 2012 to September 30, 2013) was the second dry year in a row. End of October storage in Lake McClure (October 31, 2012) was 384,794 acre-feet, compared to a 47 year average storage of 455,400 acre-feet. The April-July 2013 inflow into Lake McClure was 256,694 acre-feet, compared to the historical average inflow during this time period of 640,000 acre-feet.

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

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Due to the drought conditions, the District Board allocated 2.4 acre-feet per acre to Class I growers and 1.2 acre-feet per acre to Class II growers. In addition, the District implemented its Supplemental Water Supply Pool Program (Program), which provided additional water supply from groundwater supplies to Class I growers. Overall, the District sold 265,613 acre-feet of water supplies to in-District growers during the 2013 Irrigation Season. In addition, the District provided a spring pulse flow in the Merced River through a water transfer to United States Bureau of Reclamation. Furthermore, the District completed two out-of-District water transfers with one involving lands within its Sphere of Influence. The District also sold pre-1914 water collected in Lake Yosemite and Bear Creek to the East Bear Creek Unit of the San Luis Wildlife Refuge.

Subsequent to year end, in response to the ongoing drought in the Merced River watershed, on April 18, 2014 after a notice, public hearing and protest process, the Board approved an increase of approximately \$80 to the per acre-foot irrigation charge, bringing the total per acre-foot charge to approximately \$100.67. Such rate increase was effective as of April 18, 2014, the beginning of the irrigation season. In connection with such protest process, the District received 4,313 votes in favor of the increase in the per-acre foot charge and 776 votes against. Such per-acre foot charge was reduced to \$75 by the Board on June 3, 2014 after execution of a water transfer agreement that occurred in May of 2014.

In addition to the increase to the per acre-foot charge, the District proposed an increase of \$10 per acre to the standby charge for Fiscal Year 2015. The proposed increase to the standby charge was required to be approved by landowners. The proposed increase in the standby charge was not approved by the landowners and no increase to the standby charge was made in accordance with California law.

The District maintained its risk management program with the goal of reducing price volatility and providing rate certainty for its customers. The District saw an increase in customers' usage in 2013/14, with electric load increasing by 2.4% percent from 2012/13. In the 2013/14 fiscal year, the District received significant payment from counterparties in our risk management program. This is the first time since 2009, and began in December 2013 and has continued through the remainder of the fiscal year ending March 31, 2014.

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, by the end of 2020. The California Energy Commission (CEC) adopted final regulations in the fall of 2013. Based on our best analysis, we anticipate full compliance (procurement) expenditures to be in the range of \$10 to \$15 million between 2014 and the end of 2020.

Energy generated at the hydroelectric facility has historically been sold to PG&E under a long-term power purchase agreement. This 50-year contract from 1964 will expire on June 30, 2014. The District is in the final stages of executing a new three year agreement with PG&E to sell energy. In addition, the District has an executed agreement for capacity with Shell Oil Company.

The 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 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

## STATEMENT OF NET POSITION

March 31, 2014

### ASSETS

Capital assets:	
Non-depreciable	\$ 33,268,424
Depreciable	114,433,135
Capital assets, net	<u>147,701,559</u>
Other non-current assets:	
Investments	15,336,645
Deferred relicense costs	22,559,347
Debt issuance costs	1,750,294
Regulatory costs for future recovery	10,150,358
Total other noncurrent assets	<u>49,796,644</u>
Current assets:	
Cash and cash equivalents	24,513,230
Investments	11,957,176
Accounts receivable, net	6,579,594
Due from other governmental agencies	1,025,273
Accrued interest and taxes receivable	92,724
Inventory	4,001,218
Prepaid expenses and other current assets	1,095,609
Restricted cash and cash equivalents	12,471,984
Total current assets	<u>61,736,808</u>
Total assets	<u>259,235,011</u>

### DEFERRED OUTFLOWS OF RESOURCES

Long-term debt refundings	2,566,336
Deferred gas charges	389,222
Accumulated decrease in fair value of hedging derivatives	(513,551)
Total deferred outflows of resources	<u>2,442,007</u>
Total assets and deferred outflows of resources	<u>\$ 261,677,018</u>

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

**MERCED IRRIGATION DISTRICT**  
**STATEMENT OF NET POSITION (CONTINUED)**

March 31, 2014

**LIABILITIES**

Non-current liabilities	
Long-term liabilities	\$ 121,391,626
Regulatory deferred revenues	9,800,445
Deposits	770,201
Total non-current liabilities	131,962,272
Current liabilities:	
Accounts payable	701,454
Accrued liabilities	4,489,364
Unearned revenue	1,435,319
Accrued interest payable	3,703
Current portion of long-term liabilities	2,880,770
Total current liabilities	9,510,610
Total liabilities	141,472,882

**DEFERRED INFLOWS OF RESOURCES**

Public purpose revenues	1,073,881
Power cost reductions	800,000
Accumulated increase in fair value of hedging derivatives	(513,551)
Total deferred inflows of resources	1,360,330

**NET POSITION**

Net investment in capital assets	65,801,230
Restricted	1,544,100
Unrestricted	51,498,476
Total net position	118,843,806
Total liabilities, deferred inflows of resources and net position	\$ 261,677,018

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

**MERCED IRRIGATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the year ended March 31, 2014

Operating revenues:	
Electric sales and services	\$ 52,655,884
Water sales and services	11,998,771
Hydroelectric contractual services	6,821,581
Water transfers	3,879,498
Recreation fees	1,423,916
Storm drainage fees	19,942
Concessionaire revenue	1,837,517
Total operating revenues	78,637,109
Operating expenses:	
Purchase of power	28,583,744
Water distribution	16,197,532
Electric transmission and distribution	12,744,986
Recreation	2,670,247
Concessionaire	529,003
Storm drainage	21,076
Administrative and general	6,189,318
Depreciation and amortization	6,205,348
Total operating expenses	73,141,254
Net income from operations	5,495,855
Non-operating revenues (expenses):	
Property taxes	3,214,982
Interest income	313,773
Other non-operating income	145,265
Loss on disposal of capital assets	(10,200)
Interest expense	(5,109,537)
Total non-operating revenues (expenses)	(1,445,717)
Net income before capital contributions	4,050,138
Capital contributions	676,122
Total capital contributions	676,122
Change in net position	4,726,260
Net position, beginning of year	114,117,546
Net position, end of year	\$ 118,843,806

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

# MERCED IRRIGATION DISTRICT

## STATEMENT OF CASH FLOWS

For the year ended March 31, 2014

Cash flows from operating activities:	
Cash receipts from customers	\$ 85,942,428
Cash paid to suppliers for goods and services	(62,810,342)
Cash paid to employees for services	(8,914,799)
Net cash provided by operating activities	<u>14,217,287</u>
Cash flows from noncapital financing activities:	
Property taxes received	3,215,558
Relicense costs incurred	(2,136,689)
Other income, net of other expenses	189,228
Net cash provided by noncapital financing activities	<u>1,268,097</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,229,477)
Loss on sale of equipment	(10,200)
Proceeds from issuance of debt	11,988,960
Principal payments on long-term debt	(16,997,634)
Interest payments on long-term debt	(4,745,608)
Net cash used by capital and related financing activities	<u>(10,993,959)</u>
Cash flows from investing activities:	
Purchase of investment securities	(2,919,621)
Interest received on investments	283,701
Net cash used in investing activities	<u>(2,635,920)</u>
Increase in cash and cash equivalents	1,855,505
Cash and cash equivalents, beginning of year	<u>35,129,709</u>
Cash and cash equivalents, end of year	<u>\$ 36,985,214</u>
Cash and cash equivalents consist of the following:	
Unrestricted	\$ 24,513,230
Restricted	12,471,984
	<u>\$ 36,985,214</u>

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

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

For the year ended March 31, 2014

Reconciliation of the net income from operations to	
net cash provided by operating activities	
Net income from operations	\$ 5,495,855
Adjustments to reconcile net income from operations	
to net cash provided by operating activities:	
Depreciation and amortization	6,205,348
Changes in operating assets and liabilities:	
Accounts receivable	(85,537)
Due from other governmental agencies	748,837
Inventory	331,966
Prepaid expenses and other current assets	(284,532)
Deferred gas charges	(389,222)
Accounts payable	(598,979)
Accrued liabilities	(36,003)
Unearned revenue	2,107,054
Deposits	149,059
Deferred inflow of resources	(161,045)
Accrued postemployment benefits	824,229
Accrued compensated absences	(89,743)
Net cash provided by operating activities	<u>\$ 14,217,287</u>

Supplemental disclosures of cash flow information:

Noncash investing, capital and financing activities:	
Receipt of contributed electric system assets	
from developers	\$ 676,122
Change in derivative financial instruments	<u>\$ 52,606</u>

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

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

March 31, 2014

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**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 (FASB) 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. The Twin Lakes Management Company, Inc. (TLMC) was created by the District to operate the marina and lake recreation concessions on Lake McSwain and Lake McClure.

Although legally separate from the District, the MIDPFFC and the MIDDID#1 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 and construction and maintenance of storm water drainage facilities. TLMC is also a legally separate entity that is owned by the District and provides concession management at Lake McSwain and Lake McClure. TLMC maintains separate bank accounts, management, and Board Meetings from the District. 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.

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

March 31, 2014

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

***Participation in Joint Power Authorities***

The San Joaquin River Group Authority (SJRGGA) 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, the City and County of San Francisco, Friant Water Authority, and the 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 SJRGGA is governed by an eight-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 SJRGGA 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.

The District is also a member of the San Joaquin Tributaries Authority (SJTA), which was created in or about April 2012 under a joint exercise of powers agreement between the District, Modesto Irrigation District, Turlock Irrigation District, South San Joaquin Irrigation District, Oakdale Irrigation District, and the City and County of San Francisco. The purpose of the SJTA is similar to that of the SJRGGA, including the defense of common interests of the Parties, including the common defense of water rights and to develop proactive and responsive public relations approaches to issues over the long term. The SJTA is governed by a six-member commission made up of one member of the governing board of each Party. The agreement has no scheduled termination date; it will terminate upon agreement of all Parties unless the Party decides to voluntarily withdraw earlier. Upon termination of the agreement, all of the assets of the SJTA will be returned to the respective Parties in 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.

***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 position represents 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 position. Net position is segregated into net investment in capital assets; restricted; and unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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

March 31, 2014

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

***Basis of Accounting, continued***

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 unearned 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.

***Change in Accounting Period***

During 2013, the District changed its year end from December 31 to March 31 to better reflect the operating and construction cycles of the District. The financial statements presented reflect the initial fiscal year ended March 31.

***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.

***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 position as incurred are recognized when included in rates and recovered from, or refunded to, customers.

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

March 31, 2014

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

***Regulatory Deferrals, continued***

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 a deferred inflow of resources power cost reductions on the statement of net position. At March 31, 2014, the deferred power cost reductions were \$800,000 as reported in deferred inflows of resources.

A portion of the District water sales is derived from water transfers to local, 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. At March 31, 2014, such cumulative water sales were \$9,800,445, and reported as regulatory deferred revenues, as follows:

1. 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 was deferred in accordance with SFAS 71 to offset certain expenditures in future years. At March 31, 2014, the available balance was \$2,750,000.
2. In 2013, the District entered into an agreement to transfer water to a local agency on or before February 28, 2019. The transfer is currently undergoing its state required environmental review. At March 31, 2014, the balance on deposit, to be applied to the future purchase amount was \$2,730,000.
3. In 2014, the District entered into and completed an agreement to transfer water to a local agency. The revenue from this transfer has been deferred to offset certain expenditures in future years. At March 31, 2014, the remaining balance is \$4,320,445.

The amount reported as regulatory costs for future recovery of \$10,150,358 represents the accretion of interest on capital appreciation certificates of participation, which are recorded as long-term liabilities, 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 plant	10 - 50 years

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

March 31, 2014

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

***Capital Assets, continued***

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.

***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 (FERC) until the license is renewed. The District's existing FERC license expired on February 28, 2014; however, the District obtained a one year renewal, extending the license through February 28, 2015. According to FERC's latest schedule for the relicensing process for P-2179 (the Merced River Hydroelectric Project), it is anticipated that a new license will be issued after February 2015, although this date is not fixed and is subject to FERC's discretion. However, in accordance with FERC regulations, the District will be issued annual licenses to operate under existing terms and conditions until a new license is issued. The project is expected to be relicensed in 2015, at which time these costs will be amortized to expense over the new license period.

***Bond Discounts, Premiums, Prepaid Insurance Debt Issuance Costs***

Bond discounts, premiums, as well as prepaid insurance debt 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.

***Deferred Outflows***

*Long-Term Debt Refundings* - Unamortized gains and losses resulting from current or advance debt refunding are classified as deferred outflows of resources. This amount is 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.

*Deferred gas charges* - The District is required to meet an annual carbon emissions obligation for the State of California's Cap-and-Trade Program. Greenhouse gas (GHG) costs have two components, the expense side and the revenue side. The expense side consists of GHG costs billed by Turlock Irrigation District on the monthly cost of power bill. The revenue side consists of the District receiving funds for allowances sold at auction. The deferred GHG costs are the net expenses waiting to be offset by the revenue generated at auction.

*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 position. 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 a deferred outflow of resources and deferred inflow of resources on the statement of net position and is charged or credited into electricity supply costs as the related asset or liability is utilized.

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

March 31, 2014

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

***Accounts Receivable, Net***

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 \$41,100 at March 31, 2014.

***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.

***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 Inflows***

*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 March 31, 2014 the deferred public purpose revenues were \$1,073,881 as reported in deferred inflows of resources.

*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 position in the period in which the underlying electricity supply delivery occurs.

***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***

For the purpose of the Statement of Cash Flows, 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.

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

March 31, 2014

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

***Reclassifications***

Certain reclassifications have been made to beginning net position between the District's internal funds. These reclassifications were a result of the District's system conversion. Net position was evaluated for departments that had moved from one fund to another in the past few years. The District opted to re-class the net position from FY 2010-FY 2013 for these departments to the current fund.

***New Accounting Pronouncements***

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment to GASB Statement No.25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. The District is in the process of evaluating the impact of implementing this statement for financial reporting.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The District is in the process of evaluating the impact of implementing this statement for financial reporting.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. The District does not believe there will be a significant financial effect related to this statement.

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

March 31, 2014

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

*New Accounting Pronouncements, continued*

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement will also enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees and augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2013. The District does not believe there will be a financial statement effect related to this statement.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contribution, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's net pension liability. The requirements of this statement should be applied simultaneously with the provisions of Statement 68, *Accounting and Financial Reporting for Pensions – an amended of GASB Statement No.27* whose requirement is effective for financial statements for fiscal years beginning after June 15, 2013. The District is in the process of evaluating the impact of implementing this statement for financial reporting.

**2. Cash, Cash Equivalents and Investments**

Cash, cash equivalents and investments are classified in the accompanying financial statements as follows as of March 31, 2014:

Cash	\$ 22,443,890
Cash equivalents	2,069,340
Restricted cash equivalents	12,471,984
Investments	27,293,821
Total cash, cash equivalents and investments	\$ 64,279,035

Cash, cash equivalents and investments consisted of the following as of March 31, 2014:

Cash on hand	\$ 10,100
Deposits with financial institutions	22,433,790
Investments and cash equivalents	41,835,145
Total cash, cash equivalents and investments	\$ 64,279,035

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

March 31, 2014

**2. Cash, Cash Equivalents and Investments, continued**

***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 March 31, 2014, 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%	5%
Commercial paper	270 days	25%	5%
Negotiable Certificates and Time Deposits	5 years	30%	5%
Repurchase Agreements	90 days	None	5%
Medium Term Notes	5 years	30%	5%
Mutual Funds	N/A	20%	None
Money Market Mutual Funds	N/A	20%	None
Mortgage Pass-Through Securities	5 years	20%	5%
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
Fully Insured Certificates of Deposits	5 years	25%	\$250,000 or Collateralization

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.

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

March 31, 2014

**2. Cash, Cash Equivalents and Investments, continued**

***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**

March 31, 2014

**2. Cash, Cash Equivalents and Investments, continued**

***Interest Rate Risk, continued***

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

	Total	Remaining Maturity (in Months)			
		12 months or less	13 to 24 months	25 to 60 months	More than 60 months
U.S. Treasury Obligations	\$ 8,417,327	\$ -	\$ 4,363,521	\$ 4,053,806	\$ -
U.S. Agency Securities	8,070,166	-	1,700,377	6,369,789	-
Medium Term Notes	6,178,775	-	601,401	5,577,374	-
Money Market Mutual Funds	612,554	612,554	-	-	-
Local Agency Investment Funds	2,069,340	2,069,340	-	-	-
Certificates of Deposit	4,552,172	1,100,943	1,701,229	1,750,000	-
Held by bond trustee:					
U.S. Treasury Obligations	4,285,559	4,285,559	-	-	-
U.S. Agency Securities	3,159,529	-	3,159,529	-	-
Money Market Mutual Funds	4,489,723	4,489,723	-	-	-
Total	<u>\$ 41,835,145</u>	<u>\$ 12,558,119</u>	<u>\$ 11,526,057</u>	<u>\$ 17,750,969</u>	<u>\$ -</u>

***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 and cash equivalent type.

	Minimum Legal Rating	Total	Minimum Rating			
			AAA/Aaa	AA/Aa	A	Unrated
U.S. Treasury Obligations	Unrated	\$ 8,417,327	\$ -	\$ -	\$ -	\$ 8,417,327
U.S. Agency Securities	Unrated	8,070,166	-	-	-	8,070,166
Medium Term Notes	A	6,178,775	141,570	3,509,886	2,527,319	-
Money Market Mutual Funds	AAA/Aaa	612,554	612,554	-	-	-
Local Agency Investment Funds	Unrated	2,069,340	-	-	-	2,069,340
Certificates of Deposit	A	4,552,172	-	599,579	3,952,593	-
Held by bond trustee:						
U.S. Treasury Obligations	Unrated	4,285,559	-	-	-	4,285,559
U.S. Agency Securities	Unrated	3,159,529	-	-	-	3,159,529
Money Market Mutual Funds	AAA/Aaa	4,489,723	4,489,723	-	-	-
		<u>\$ 41,835,145</u>	<u>\$ 5,243,847</u>	<u>\$ 4,109,465</u>	<u>\$ 6,479,912</u>	<u>\$ 26,001,921</u>

***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 March 31, 2014, the District had no individual investment that exceeded 5% of its total investments.

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

March 31, 2014

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**2. Cash, Cash Equivalents 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 March 31, 2014, the carrying amount of the District's deposits was \$22,433,790 and the balance in financial institutions was \$22,952,366. Of the balance in financial institutions, \$500,000 was covered by federal depository insurance and \$22,452,366 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 March 31, 2014, the District's investment in LAIF is \$2,069,340. The total amount invested by all public agencies in LAIF at that date is approximately \$20.1 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$59.8 billion. As of March 31, 2014, LAIF has an average life-month end of 185 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**

March 31, 2014

**3. Capital Assets**

Capital asset activity for the year ended March 31, 2014 is as follows:

	Balances at April 1, 2013	Additions	Disposals	Transfers and Adjustments	Balances at March 31, 2014
Capital assets, not being depreciated					
Land	\$ 13,144,380	\$ -	\$ (9,499)	\$ (36,793)	\$ 13,098,088
Construction in process	24,398,070	2,694,455	(782,835)	(6,149,454)	20,160,236
Goodwill	10,100	-	-	-	10,100
Total capital assets, not being depreciated	<u>37,552,550</u>	<u>2,694,455</u>	<u>(792,334)</u>	<u>(6,186,247)</u>	<u>33,268,424</u>
Capital assets, being depreciated					
Landscaping	6,555,912	-	(103,749)	5,392,675	11,844,838
Buildings and structures	51,836,694	6,604	(700,957)	(776,785)	50,365,556
Distribution systems	114,015,661	42,679	(674,363)	1,173,960	114,557,937
Machinery and equipment	15,774,403	6,512	(1,134,864)	276,192	14,922,243
Vehicles	4,060,103	191,380	(106,898)	178,724	4,323,309
Intangible plant	8,804,830	34,224	(132,871)	(67,188)	8,638,995
Total capital assets, being depreciated	<u>201,047,603</u>	<u>281,399</u>	<u>(2,853,702)</u>	<u>6,177,578</u>	<u>204,652,878</u>
Less accumulated depreciation for:					
Landscaping	(5,776,349)	(237,773)	103,953	(973,508)	(6,883,677)
Buildings and structures	(26,726,584)	(866,260)	367,233	1,214,255	(26,011,356)
Distribution systems	(32,147,850)	(3,139,386)	499,135	(1,238,337)	(36,026,438)
Machinery and equipment	(11,143,672)	(657,251)	1,121,376	623,584	(10,055,963)
Vehicles	(3,440,187)	(180,961)	102,655	(164,804)	(3,683,297)
Intangible plant	(7,508,967)	(204,429)	98,388	55,996	(7,559,012)
Total accumulated depreciation	<u>(86,743,609)</u>	<u>(5,286,060)</u>	<u>2,292,740</u>	<u>(482,814)</u>	<u>(90,219,743)</u>
Total capital assets being depreciated, net	<u>114,303,994</u>	<u>(5,004,661)</u>	<u>(560,962)</u>	<u>5,694,764</u>	<u>114,433,135</u>
Capital assets, net	<u>\$ 151,856,544</u>	<u>\$ (2,310,206)</u>	<u>\$ (1,353,296)</u>	<u>\$ (491,483)</u>	<u>\$ 147,701,559</u>

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

March 31, 2014

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**4. Accrued Liabilities**

The balance of the District's accrued liabilities at March 31, 2014 is as follows:

Accrued NMDL settlement	\$	24,881
Accrued permission fees		182,890
Accrued power purchase expense		2,434,044
Accrued salaries and wages		239,072
Other accrued liabilities		1,608,477
Total accrued liabilities	<u>\$</u>	<u>4,489,364</u>

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

March 31, 2014

**5. Long-Term Liabilities**

Long-term liabilities include long-term debt, capital leases, accrued compensated absences and retirement obligations. The activity of the District's long-term liabilities during the year ended March 31, 2014 is as follows:

	Balances at April 1, 2013	Additions	(Repayments)	Balances at March 31, 2014	Due Within One Year
Long-term debt:					
Merced River					
Development Bonds	\$ 1,945,000	\$ -	\$ (1,550,000)	\$ 395,000	\$ 395,000
2003 Revenue Certificates of Participation	12,920,000	-	(12,920,000)	-	-
2005 Electric System Refunding Revenue Bonds	58,050,000	-	(1,305,000)	56,745,000	1,380,000
2005 Revenue Certificates of Participation	3,380,000	-	(315,000)	3,065,000	330,000
2008 Water and Hydro Refunding Revenue Certificates of Participation	4,175,000	-	(460,000)	3,715,000	465,000
2008 Water and Hydro Capital Appreciation Revenue Certificates of Participation	22,718,863	-	-	22,718,863	-
2012 Electric System Refunding Revenue Bonds	10,230,000	-	(20,000)	10,210,000	10,000
2013 Electric System Refunding Revenue Bonds	-	11,988,960	-	11,988,960	300,770
	<u>113,418,863</u>	<u>11,988,960</u>	<u>(16,570,000)</u>	<u>108,837,823</u>	<u>2,880,770</u>
Line of Credit	533,156	-	(533,156)	-	-
	<u>113,952,019</u>	<u>11,988,960</u>	<u>(17,103,156)</u>	<u>108,837,823</u>	<u>\$ 2,880,770</u>
Add:					
Bond discounts	(215,532)	-	200,996	(14,536)	
Bond premiums	1,110,988	-	(95,474)	1,015,514	
Accretion of capital appreciation certificates	8,111,908	2,038,450	-	10,150,358	
Less: current portion of long-term debt	-	(2,880,770)	3,925,000	(2,880,770)	
	<u>(3,925,000)</u>	<u>(2,880,770)</u>	<u>3,925,000</u>	<u>(2,880,770)</u>	
Total long-term debt	119,034,383	(842,320)	4,030,522	117,108,389	
Accrued compensated absences	1,145,598	2,751,099	(2,829,599)	1,067,098	
Employee retirement	641,054	849,159	-	1,490,213	
Net OPEB obligation	1,652,283	(260,611)	334,254	1,725,926	
Total long-term liabilities	<u>\$ 122,473,318</u>	<u>\$ 2,497,327</u>	<u>\$ 1,535,177</u>	<u>\$ 121,391,626</u>	

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

March 31, 2014

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

*Long-Term Debt*

Long-term debt consists of the following at March 31, 2014:

**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%. This bond with a balance of \$12,920,000 was defeased in 2014 by the 2013 Electric System Refunding Revenue Bonds.

**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. In July 2012, a payment of \$10,200,000 was made for a partial refunding of these bonds. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

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

March 31, 2014

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

*Long-Term Debt, continued*

**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.

**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%.

**2012 Electric System Refunding Revenue Bonds**

On July 31, 2012, the District issued 2012 Electric System Refunding Revenue Bonds in the amount of \$10,235,000. Proceeds from these bonds were used to currently refund a portion of the District's 2005 Revenue Certificates of Participation (2005 Electric System Project). The Bonds are secured by a lien on the District's electric system net revenues. The interest rate is 4.4% per annum. Principal payments ranging from \$5,000 to \$450,000 are due semi-annually on March 1 and September 1, through September 1, 2036. Interest payments ranging from \$9,900 to \$263,949, 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%.

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

March 31, 2014

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

*Long-Term Debt, continued*

**2013 Electric System Refunding Revenue Bonds**

On June 6, 2013, the District issued 2013 Electric System Refunding Revenue Bonds in the amount of \$11,988,960. Proceeds from these bonds were used to defease the District's 2003 Revenue Certificates of Participation. The Bonds are secured by a lien on the District's electric system net revenues. The interest rate is 3.95% per annum. Principal payments ranging from \$300,770 to \$852,470 are due semi-annually on March 1 and September 1, through September 1, 2033. Interest payments ranging from \$16,836 to \$348,596, are due semi-annually on March 1 and September 1, through September 1, 2033. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

The following is a schedule of long-term debt:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,880,770	\$ 4,050,297	\$ 6,931,067
2016	4,566,905	4,965,284	9,532,189
2017	4,558,380	4,962,641	9,521,021
2018	4,581,320	4,943,619	9,524,939
2019	4,595,755	4,904,778	9,500,533
2020-2024	22,377,205	22,507,708	44,884,913
2025-2029	22,845,950	21,816,832	44,662,782
2030-2034	26,505,708	18,142,824	44,648,532
2035-2039	15,925,830	13,520,236	29,446,066
	<u>\$ 108,837,823</u>	<u>\$ 99,814,219</u>	<u>\$ 208,652,042</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, \$15,000,000 of Revenue Certificates of Participation issued in November 2005 and \$10,235,000 of Electric System Refunding Revenue Bonds issued in July 2012. 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 \$134,902,829. Principal and interest paid for the current period and total electric customer net revenues were \$5,903,029 and \$13,345,122, respectively.

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 \$73,346,808. Principal and interest paid for the current period and total water customer net revenues were \$637,883 and \$2,052,774 respectively.

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

March 31, 2014

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

***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 March 31, 2014 the District had no arbitrage liability.

**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 April 30, 2017. 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 NP-15 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 NP-15 Index applicable to the delivery period, and six percent plus \$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, 2013; and \$5.00 per megawatt-hour for the period from January 1, 2014 through April 30, 2017.

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 \$4.50-\$4.75 per megawatt-hour, effective January 1, 2012. The District's purchases of power from TID for the year ended March 31, 2014 totaled \$24,552,357.

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 expire 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 \$28.12 per megawatt hour during the year ended March 31, 2014. The District's purchases for the year ended March 31, 2014 totaled \$370,485.

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

March 31, 2014

**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. 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 California Independent System Operator (CAISO) times the locational marginal price applicable to the CAISO pricing node for the wind project. The District's purchases during the year ended March 31, 2014 totaled \$620,331. The District's sales back to Iberdrola during the year ended March 31, 2014 totaled \$354,602.

***Derivative Instruments***

The District follows 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 position 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 March 31, 2014, the District has the following derivative financial instruments:

Type	Notional Amount	Changes in Fair Value		2014	
		Classification	Amount	Classification	Amount
Commodity forward contracts	368,520 MWh	Deferred inflow	\$ 52,606	Derivative instruments	\$ 513,551

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. 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 during the year ended March 31, 2014 was \$155,519.

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

March 31, 2014

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

***Background Information, continued***

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 March 31, 2014.

***Risks***

The following table displays the terms of the District's hedging derivative instruments outstanding at March 31, 2014, 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 Date	Counterparty Credit Risk
Commodity forward contract	10,400	MWh	04/01/14	4/30/2014	A2
Commodity forward contract	14,280	MWh	04/01/14	6/30/2014	A
Commodity forward contract	30,800	MWh	04/01/14	6/30/2014	A
Commodity forward contract	4,160	MWh	05/01/14	5/31/2014	A2
Commodity forward contract	10,400	MWh	05/01/14	5/31/2014	A2
Commodity forward contract	6,000	MWh	06/01/14	6/30/2014	A
Commodity forward contract	10,000	MWh	06/01/14	6/30/2014	A2
Commodity forward contract	10,400	MWh	07/01/14	7/31/2014	A2
Commodity forward contract	10,400	MWh	07/01/14	7/31/2014	A2
Commodity forward contract	18,480	MWh	07/01/14	9/30/2014	A
Commodity forward contract	24,400	MWh	07/01/14	9/30/2014	A
Commodity forward contract	10,400	MWh	08/01/14	8/31/2014	A2
Commodity forward contract	10,400	MWh	08/01/14	8/31/2014	A2
Commodity forward contract	10,000	MWh	09/01/14	9/30/2014	A2
Commodity forward contract	10,400	MWh	09/01/14	9/30/2014	A2
Commodity forward contract	18,240	MWh	01/01/15	3/31/2015	A
Commodity forward contract	42,560	MWh	01/01/15	3/31/2015	A
Commodity forward contract	24,400	MWh	07/01/15	9/30/2015	A
Commodity forward contract	61,600	MWh	07/01/15	9/30/2015	A
Commodity forward contract	30,800	MWh	10/01/15	12/31/2015	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 March 31, 2014. As of March 31, 2014, 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 March 31, 2014.

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

March 31, 2014

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**7. Net Position**

***Restricted***

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets include the following at March 31, 2014:

Recreation plan operations and maintenance	\$ 1,100,490
Mariposa County water rights settlement	437,107
Recreation plan future stage construction	6,503
Total	\$ 1,544,100

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***

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 March 31, 2014:

Water resources - capital fund	\$ 2,000,000
Water resources - unanticipated infrastructure	2,000,000
Water resources - operating reserve	5,513,074
Water resources - catastrophe fund	748,360
Subtotal - water resources	10,261,434
Energy resources - new customer growth	2,185,000
Energy resources - system support and growth	16,001,392
Energy resources - purchased power reserve	9,989,121
Energy resources - operating reserve	3,196,586
Energy resources - catastrophe fund	1,684,596
Subtotal - energy resources	33,056,695
Total	\$ 43,318,129

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

March 31, 2014

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**7. Net Position, continued**

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

- Designated for water resources - capital fund: the Capital Fund is used for the funding of new capital assets or the replacement of capitalized assets when they reach the end of their useful lives.
- Designated for water resources - unanticipated infrastructure: this fund is established to provide funds to pay for unanticipated capital expenditures related to existing Water Resources facilities and infrastructure.
- Designated for water resources – operating reserve: the Operating Reserve Fund is used for unanticipated operating expenses and to ensure prudent levels of general liquidity. This fund is designated by the Board to maintain a reserve for current operations and to meet routine cash flow needs.
- Designated for water resources – catastrophe fund: the Catastrophe Fund is used to begin repairs of capital facilities after a catastrophic event, such as a severe earthquake or fire, while long-term financing is being arranged or insurance claims are being processed. Merced may use funds herein for either capital or operating purposes.
- Designated for energy resources – new customer growth: this Fund is designed to set aside funding for future capital projects that will enable Merced to strategically add customers in a competitive environment.
- Designated for energy resources – system support and growth: this Fund is used for the funding of new capital assets or the replacement of capitalized assets when they reach the end of their useful lives.
- Designated for energy resources – purchase power reserve: this sub-fund is established to provide flexibility to the Board when setting rates to allow for absorbing temporary rate fluctuations in energy expenses in connection with ICE NP-15 Index driven costs.
- Designated for energy resource – operating reserve: the Operating Reserve Fund is used for unanticipated operating expenses. This fund is designated by the Board to maintain a reserve for current operations and to meet routine cash flow needs.
- Designated for energy resources – catastrophe fund: the Catastrophe Fund can be used (i) to begin repair of the electric system after a catastrophic event, such as a severe earthquake or fire, while long-term financing is being arranged or insurance claims are being processed or (ii) for any operating or capital purpose in the event of severe financial events that impact the financial soundness of Merced. Merced may use funds herein for either capital or operating purposes.

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

March 31, 2014

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**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. As of January 1, 2013, new employees are required to pay their own required contribution. Contributions made by the District on behalf of the employees were \$740,625 for the year ended March 31, 2014. The District is required to contribute at an actuarially determined rate; the rate for April 1, 2013 to June 30, 2013 was 12.411% and for July 1, 2013 to March 31, 2014 was 12.6%. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

***Annual Pension Cost***

For the year ended March 31, 2014, the District incurred an annual pension cost of \$1,372,770. The required contribution was determined as part of the June 30, 2009 and 2010 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 3.55% 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, 2010 was 25 years.

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

	Annual Pension Cost (APC)	Percentage of APC Contributed
December 31, 2011	\$ 1,159,626	100%
December 31, 2012	1,498,977	100%
December 31, 2013	1,372,770	100%

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

March 31, 2014

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

***Funded Status and Funding Progress***

The actuarial value and funding progress as of March 31, 2014, 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
6/30/2010	\$ 53,752,166	\$ 43,296,042	\$ 10,456,124	80.50%	\$ 10,672,324	98.00%
6/30/2011	56,533,121	45,674,192	10,858,929	80.80%	10,284,848	105.58%
6/30/2012	58,262,912	47,600,034	10,662,878	81.70%	9,869,599	108.04%

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 the year ended March 31, 2014, the District contributed \$260,611 to the plan, which represents 78% of the cost for the year ended December 31, 2013 premiums for eligible retired plan members and their spouses. During the year ended March 31, 2014, plan members receiving benefits contributed \$14,216 or approximately 9% of the total premiums, through their required contribution.

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

March 31, 2014

**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 the year ended December 31, 2013, the amount actually contributed to the plan for the year ended March 31, 2014, and changes in the District's net OPEB obligation to the OPEB plan:

Annual required contribution	\$ 359,121
Interest on net OPEB obligation	82,614
Annual required contribution adjustment	<u>(107,481)</u>
Annual OPEB cost	334,254
Contributions made (premium payment made)	<u>(260,611)</u>
Change in net OPEB obligation	73,643
Net OPEB obligation, beginning of year	<u>1,652,283</u>
Net OPEB obligation, end of year	<u><u>\$ 1,725,926</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2012 and 2013 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 335,224	85.94%	\$ 1,634,827
December 31, 2012	282,392	93.82%	1,652,283
December 31, 2013	334,254	77.97%	1,725,926

***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.

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**

March 31, 2014

**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 coverage's are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (Includes public officials liability)	\$ 2,000,000	\$ 58,000,000	None
Property Damage (Includes crime)	100,000	100,000,000	Various
Workers' Compensation liability	2,000,000	Statutory	None
Dam failure liability	250,000	5,000,000	250,000

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.

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

March 31, 2014

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**11. Commitments and Contingencies**

***Mariposa County Water Rights Commitment***

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 and expects it to be renewed in 2015.

***Contract Commitments***

At March 31, 2014, the District had contract commitments of \$801,175 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 will expire on August 1, 2014. At March 31, 2014, there was no balance outstanding on this line of credit.

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

March 31, 2014

**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.

<b>Condensed Statements of Net Position</b>	<u>Electric Services</u>	<u>Water Operations</u>
Assets:		
Capital assets, net	\$ 65,100,870	\$ 41,465,997
Debt issuance costs	1,750,294	-
Interfund receivables	34,536,070	32,168,019
Current assets	13,630,797	6,276,712
Total assets	<u>115,018,031</u>	<u>79,910,728</u>
Deferred outflow of resources	<u>2,340,290</u>	<u>86,133</u>
Liabilities:		
Long-term and other liabilities	81,988,966	14,509,099
Interfund payables	222,605	379,370
Other current liabilities	4,862,354	3,181,730
Total liabilities	<u>87,073,925</u>	<u>18,070,199</u>
Deferred inflow of resources	<u>1,360,330</u>	<u>-</u>
Net position:		
Net investment (deficit) in capital assets	(9,111,649)	38,823,996
Restricted	-	437,107
Unrestricted	<u>38,035,715</u>	<u>22,665,559</u>
Total net position	<u><u>\$ 28,924,066</u></u>	<u><u>\$ 61,926,662</u></u>

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

March 31, 2014

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

<b>Condensed Statements of Revenues, Expenses and Changes in Net Position</b>	<u>Electric Services</u>	<u>Water Operations</u>
Operating revenues (pledged against bonds)	\$ 52,655,884	\$ 15,878,269
Depreciation and amortization	(2,949,152)	(1,882,301)
Other operating expenses	<u>(38,200,873)</u>	<u>(18,158,981)</u>
Operating income	<u>11,505,859</u>	<u>(4,163,013)</u>
Non-operating revenues (expenses):		
Property taxes	-	2,865,870
Other non-operating revenues	113,829	165,137
Interest expense	(4,808,842)	(201,164)
Non-operating revenues (expenses), net	<u>(4,695,013)</u>	<u>2,829,843</u>
Income (loss) before transfers and capital contributions	6,810,846	(1,333,170)
Capital contributions	193,198	136,383
Transfers in	1,534	1,302,479
Transfers out	<u>(1,225,252)</u>	<u>-</u>
Changes in net position	5,780,326	105,692
Beginning net position	<u>23,143,740</u>	<u>61,820,970</u>
Ending net position	<u>\$ 28,924,066</u>	<u>\$ 61,926,662</u>

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

March 31, 2014

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

<b>Condensed Statements of Cash Flows</b>	<u>Electric Services</u>	<u>Water Operations</u>
Net cash provided by (used in):		
Operating activities	\$ 5,940,459	\$ (1,950,736)
Noncapital financing activities	2,335	2,963,128
Capital and related financing activities	(6,960,751)	(1,175,910)
Investing activities	118,296	71,813
Net (decrease)	<u>(899,661)</u>	<u>(91,705)</u>
 Cash and cash equivalents, beginning of year	 <u>6,742,667</u>	 <u>4,157,272</u>
 Cash and cash equivalents, end of year	 <u>\$ 5,843,006</u>	 <u>\$ 4,065,567</u>

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 position as due to other funds and due from other funds. As of March 31, 2014 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 position, can be calculated from the condensed statements of net position above by subtracting the interfund payable amount from the interfund receivable amounts.

**14. Subsequent Events**

The District evaluated subsequent events for recognition and disclosure through June 26, 2014, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since March 31, 2014 that required recognition or disclosure in such financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

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

**SCHEDULES OF FUNDING PROGRESS**

For the year ended March 31, 2014

**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
January 1, 2011	-	2,971,500	2,971,500	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
6/30/2010	\$ 53,752,166	\$ 43,296,042	\$ 10,456,124	80.50%	\$ 10,672,324	98.00%
6/30/2011	56,533,121	45,674,192	10,858,929	80.80%	10,284,848	105.58%
6/30/2012	58,262,912	47,600,034	10,662,878	81.70%	9,869,599	108.04%

## **SUPPLEMENTARY INFORMATION**

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

March 31, 2014

<u>Assets</u>	Electric Services	Water Utility	Hydroelectric	Parks
Capital assets:				
Non-depreciable	\$ 7,155,236	\$ 10,191,899	\$ 13,544,674	\$ 1,771,436
Depreciable	57,945,634	31,274,098	21,700,147	1,933,167
Capital assets, net	<u>65,100,870</u>	<u>41,465,997</u>	<u>35,244,821</u>	<u>3,704,603</u>
Other non-current assets:				
Investments	-	-	-	-
Deferred relicense costs	-	-	-	-
Debt issuance costs	1,750,294	-	-	-
Regulatory costs for future recovery	-	-	-	-
Total other non-current assets	<u>1,750,294</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current assets:				
Cash and cash equivalents	-	3,085,521	-	1,460
Investments	-	-	-	-
Accounts receivable, net	4,279,704	520,455	1,718,787	12,505
Due from other governmental agencies	-	916,763	23,884	7,193
Accrued interest and taxes receivable	4,337	1,074	-	-
Inventory	3,401,453	384,207	-	-
Prepaid expenses and other current assets	102,297	388,646	185,461	52,462
Due from other funds	34,536,070	32,168,019	-	-
Restricted cash and cash equivalents	5,843,006	980,046	377,738	1,106,993
Total current assets	<u>48,166,867</u>	<u>38,444,731</u>	<u>2,305,870</u>	<u>1,180,613</u>
Total assets	<u>115,018,031</u>	<u>79,910,728</u>	<u>37,550,691</u>	<u>4,885,216</u>
<u>Deferred Outflows of Resources</u>				
Deferred amount on debt refundings	2,464,619	86,133	-	-
Deferred gas charges	389,222	-	-	-
Accumulated decrease in fair value of hedging derivatives	(513,551)	-	-	-
Total deferred outflows of resources	<u>2,340,290</u>	<u>86,133</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 117,358,321</u>	<u>\$ 79,996,861</u>	<u>\$ 37,550,691</u>	<u>\$ 4,885,216</u>

Drainage Improvement District #1	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ -	\$ -	\$ 583,175	22,004	\$ -	\$ 33,268,424
895,094	-	315,268	369,727	-	114,433,135
<u>895,094</u>	<u>-</u>	<u>898,443</u>	<u>391,731</u>	<u>-</u>	<u>147,701,559</u>
-	-	15,336,645	-	-	15,336,645
-	22,559,347	-	-	-	22,559,347
-	-	-	-	-	1,750,294
-	10,150,358	-	-	-	10,150,358
<u>-</u>	<u>32,709,705</u>	<u>15,336,645</u>	<u>-</u>	<u>-</u>	<u>49,796,644</u>
-	-	21,408,455	17,794	-	24,513,230
-	-	11,957,176	-	-	11,957,176
-	-	6,352	41,791	-	6,579,594
77,433	-	-	-	-	1,025,273
-	2,273	85,040	-	-	92,724
-	-	-	215,558	-	4,001,218
77	-	344,016	22,650	-	1,095,609
872,364	-	9,399,758	1,969,859	(78,946,070)	-
-	4,164,201	-	-	-	12,471,984
<u>949,874</u>	<u>4,166,474</u>	<u>43,200,797</u>	<u>2,267,652</u>	<u>(78,946,070)</u>	<u>61,736,808</u>
<u>1,844,968</u>	<u>36,876,179</u>	<u>59,435,885</u>	<u>2,659,383</u>	<u>(78,946,070)</u>	<u>259,235,011</u>
-	15,584	-	-	-	2,566,336
-	-	-	-	-	389,222
-	-	-	-	-	(513,551)
<u>-</u>	<u>15,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,442,007</u>
<u>\$ 1,844,968</u>	<u>\$ 36,891,763</u>	<u>\$ 59,435,885</u>	<u>\$ 2,659,383</u>	<u>\$ (78,946,070)</u>	<u>\$ 261,677,018</u>

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

March 31, 2014

	Electric Services	Water Utility	Hydroelectric	Parks
<u>Liabilities</u>				
Long-term liabilities	\$ 81,552,317	\$ 4,483,235	\$ 1,841,365	\$ 447,365
Other noncurrent liabilities:				
Regulatory deferred revenues	-	9,800,445	-	-
Deposits	436,649	225,419	-	102,078
Total other noncurrent liabilities	436,649	10,025,864	-	102,078
Current liabilities:				
Accounts payable	86,455	351,588	105,053	22,782
Accrued liabilities	2,755,129	982,587	388,540	44,247
Unearned revenue	-	1,382,555	-	-
Accrued interest payable	-	-	3,703	-
Due to other funds	222,605	379,370	3,068,790	9,739,324
Current portion of long-term debt	2,020,770	465,000	395,000	-
Total current liabilities	5,084,959	3,561,100	3,961,086	9,806,353
 Total liabilities	 87,073,925	 18,070,199	 5,802,451	 10,355,796
<u>Deferred Inflows of Resources</u>				
Public purpose revenues	1,073,881	-	-	-
Power cost reductions	800,000	-	-	-
Accumulated increase in fair value of hedging derivatives	(513,551)	-	-	-
Total deferred inflows of resources	1,360,330	-	-	-
<u>Net Position</u>				
Net investment (deficit) in capital assets	(9,111,649)	38,823,996	35,227,559	4,811,597
Restricted	-	437,107	-	1,106,993
Unrestricted (deficit)	38,035,715	22,665,559	(3,479,319)	(11,389,170)
 Total net position (deficit)	 28,924,066	 61,926,662	 31,748,240	 (5,470,580)
 Total liabilities, deferred inflows of resources and net position	 \$ 117,358,321	 \$ 79,996,861	 \$ 37,550,691	 \$ 4,885,216

Drainage Improvement District #1	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ 4,177	32,869,236	\$ 163,442	\$ 30,489	\$ -	\$ 121,391,626
-	-	-	-	-	9,800,445
-	-	6,055	-	-	770,201
-	-	6,055	-	-	10,570,646
-	16,174	75,901	43,501	-	701,454
-	69,219	190,407	59,235	-	4,489,364
7,315	-	-	45,449	-	1,435,319
-	-	-	-	-	3,703
-	2,355,524	59,587,691	3,592,766	(78,946,070)	-
-	-	-	-	-	2,880,770
7,315	2,440,917	59,853,999	3,740,951	(78,946,070)	9,510,610
11,492	35,310,153	60,023,496	3,771,440	(78,946,070)	141,472,882
-	-	-	-	-	1,073,881
-	-	-	-	-	800,000
-	-	-	-	-	(513,551)
-	-	-	-	-	1,360,330
895,094	(6,135,541)	898,443	391,731	-	65,801,230
-	-	-	-	-	1,544,100
938,382	7,717,151	(1,486,054)	(1,503,788)	-	51,498,476
1,833,476	1,581,610	(587,611)	(1,112,057)	-	118,843,806
\$ 1,844,968	\$ 36,891,763	\$ 59,435,885	\$ 2,659,383	\$ (78,946,070)	\$ 261,677,018

# MERCED IRRIGATION DISTRICT

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

For the year ended March 31, 2014

	Electric Services	Water Utility	Hydroelectric	Parks
Operating revenues:				
Electric sales and services	\$ 52,655,884	\$ -	\$ -	\$ -
Water sales and services	-	11,998,771	-	-
Hydroelectric contractual services	-	-	6,821,581	-
Water transfers	-	3,879,498	-	-
Recreation fees	-	-	-	1,423,916
Administrative services	-	-	-	-
Storm drainage fees	-	-	-	-
Concessionaire revenue	-	-	-	-
Total operating revenues	52,655,884	15,878,269	6,821,581	1,423,916
Operating expenses:				
Purchase of power	28,583,744	-	-	-
Water distribution	-	16,197,532	-	-
Electric transmission and distribution	7,772,591	-	4,972,395	-
Recreation	-	-	-	2,670,247
Concessionaire	-	-	-	-
Storm drainage	-	-	-	-
Administrative and general	1,844,538	1,961,449	493,221	-
Depreciation and amortization	2,949,152	1,882,301	775,291	354,946
Total operating expenses	41,150,025	20,041,282	6,240,907	3,025,193
Net income (loss) from operations	11,505,859	(4,163,013)	580,674	(1,601,277)
Non-operating revenues (expenses):				
Property taxes	-	2,865,870	-	-
Interest income	167,631	71,813	37	100
Other non-operating income (expense)	(46,960)	96,682	-	-
Loss on disposal of capital assets	(6,842)	(3,358)	-	-
Interest expense	(4,808,842)	(201,164)	(50,637)	-
Transfers in	1,534	1,302,479	-	-
Transfers out	(1,225,252)	-	(5,266)	(24,383)
Total non-operating revenues (expenses)	(5,918,731)	4,132,322	(55,866)	(24,283)
Net income (loss) before capital contributions	5,587,128	(30,691)	524,808	(1,625,560)
Capital contributions	193,198	136,383	314,879	11,662
Change in net position	5,780,326	105,692	839,687	(1,613,898)
Net position (deficit), beginning of year	23,143,740	61,820,970	30,908,553	(3,856,682)
Net position (deficit), end of year	\$ 28,924,066	\$ 61,926,662	\$ 31,748,240	\$ (5,470,580)

Drainage Improvement District #1	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,655,884
-	-	-	-	-	11,998,771
-	-	-	-	-	6,821,581
-	-	-	-	-	3,879,498
-	-	-	-	-	1,423,916
-	-	4,618,577	-	(4,618,577)	-
19,942	-	-	-	-	19,942
-	-	-	1,837,517	-	1,837,517
<u>19,942</u>	<u>-</u>	<u>4,618,577</u>	<u>1,837,517</u>	<u>(4,618,577)</u>	<u>78,637,109</u>
-	-	-	-	-	28,583,744
-	-	-	-	-	16,197,532
-	-	-	-	-	12,744,986
-	-	-	-	-	2,670,247
-	-	-	529,003	-	529,003
21,076	-	-	-	-	21,076
176,151	317,069	4,581,256	1,434,211	(4,618,577)	6,189,318
49,020	-	112,162	82,476	-	6,205,348
<u>246,247</u>	<u>317,069</u>	<u>4,693,418</u>	<u>2,045,690</u>	<u>(4,618,577)</u>	<u>73,141,254</u>
<u>(226,305)</u>	<u>(317,069)</u>	<u>(74,841)</u>	<u>(208,173)</u>	<u>-</u>	<u>5,495,855</u>
349,112	-	-	-	-	3,214,982
134	26,240	47,818	-	-	313,773
-	5,432	7,021	83,090	-	145,265
-	-	-	-	-	(10,200)
-	(1,284)	-	(47,610)	-	(5,109,537)
-	-	-	-	(1,304,013)	-
(49,112)	-	-	-	1,304,013	-
<u>300,134</u>	<u>30,388</u>	<u>54,839</u>	<u>35,480</u>	<u>-</u>	<u>(1,445,717)</u>
73,829	(286,681)	(20,002)	(172,693)	-	4,050,138
-	-	20,000	-	-	676,122
<u>73,829</u>	<u>(286,681)</u>	<u>(2)</u>	<u>(172,693)</u>	<u>-</u>	<u>4,726,260</u>
<u>1,759,647</u>	<u>1,868,291</u>	<u>(587,609)</u>	<u>(939,364)</u>	<u>-</u>	<u>114,117,546</u>
<u>\$ 1,833,476</u>	<u>\$ 1,581,610</u>	<u>\$ (587,611)</u>	<u>\$ (1,112,057)</u>	<u>\$ -</u>	<u>\$ 118,843,806</u>

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

For the year ended March 31, 2014

	Electric Services	Water Utility	Hydroelectric	Parks
Cash flows from operating activities:				
Cash receipts from customers	\$ 52,163,013	\$ 19,088,477	\$ 6,774,208	\$ 1,430,156
Cash paid to suppliers for goods and services	(37,518,593)	(16,224,231)	(5,043,884)	(2,635,184)
Cash paid to employees for services	(418,327)	(1,832,648)	-	-
Cash receipts/(payments) to other funds	(8,285,634)	(2,982,334)	610,893	1,356,455
Net cash provided by (used for) operating activities	<u>5,940,459</u>	<u>(1,950,736)</u>	<u>2,341,217</u>	<u>151,427</u>
Cash flows from noncapital financing activities:				
Property taxes received	-	2,866,446	-	-
Relicense costs incurred	-	-	-	-
Other income, net of other expenses	2,335	96,682	-	100
Net cash provided by (used for) noncapital financing activities	<u>2,335</u>	<u>2,963,128</u>	<u>-</u>	<u>100</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(22,211)	(543,294)	(204,698)	(151,506)
Loss from the sale of equipment	(6,842)	(3,358)	-	-
Proceeds from issuance of debt	11,988,960	-	-	-
Principal payments on long-term debt	(14,459,085)	(455,393)	(2,083,156)	-
Interest payments on long-term debt	(4,461,573)	(173,865)	(65,168)	-
Net cash (used for) capital and related financing activities	<u>(6,960,751)</u>	<u>(1,175,910)</u>	<u>(2,353,022)</u>	<u>(151,506)</u>
Cash flows from investing activities:				
Purchase of investment securities	-	-	-	-
Interest received on investments	118,296	71,813	55	9
Net cash provided by investing activities	<u>118,296</u>	<u>71,813</u>	<u>55</u>	<u>9</u>
Increase (decrease) in cash and cash equivalents	(899,661)	(91,705)	(11,750)	30
Cash and cash equivalents, beginning of year	<u>6,742,667</u>	<u>4,157,272</u>	<u>389,488</u>	<u>1,108,423</u>
Cash and cash equivalents, end of year	<u>\$ 5,843,006</u>	<u>\$ 4,065,567</u>	<u>\$ 377,738</u>	<u>\$ 1,108,453</u>

Drainage Improvement District #1	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ 19,795	\$ -	\$ 4,625,519	\$ 1,841,260	\$ -	\$ 85,942,428
(98,511)	(93,896)	(644,440)	(551,603)	-	(62,810,342)
(176,070)	(317,069)	(4,747,717)	(1,422,968)	-	(8,914,799)
(94,461)	280,915	9,025,082	89,084	-	-
(349,247)	(130,050)	8,258,444	(44,227)	-	14,217,287
349,112	-	-	-	-	3,215,558
-	(2,136,689)	-	-	-	(2,136,689)
-	-	7,021	83,090	-	189,228
349,112	(2,136,689)	7,021	83,090	-	1,268,097
-	-	(307,768)	-	-	(1,229,477)
-	-	-	-	-	(10,200)
-	-	-	-	-	11,988,960
-	-	-	-	-	(16,997,634)
-	-	-	(45,002)	-	(4,745,608)
-	-	(307,768)	(45,002)	-	(10,993,959)
-	-	(2,919,621)	-	-	(2,919,621)
135	29,441	63,952	-	-	283,701
135	29,441	(2,855,669)	-	-	(2,635,920)
-	(2,237,298)	5,102,028	(6,139)	-	1,855,505
-	6,401,499	16,306,427	23,933	-	35,129,709
\$ -	\$ 4,164,201	\$ 21,408,455	\$ 17,794	\$ -	\$ 36,985,214

**MERCED IRRIGATION DISTRICT**  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**

For the year ended March 31, 2014

	Electric Services	Water Utility	Hydroelectric
Reconciliation of net income (loss) from operations to net cash provided by (used for) operating activities:			
Net income (loss) from operations	\$ 11,505,859	\$ (4,163,013)	\$ 580,674
Adjustments to reconcile net income (loss) from operations to net cash provided by (used for) operating activities:			
Depreciation and amortization	2,949,152	1,882,301	775,291
Transfers to/from other funds	(1,223,718)	1,302,479	(5,266)
Changes in operating assets and liabilities:			
Accounts receivable	(331,826)	276,737	(47,373)
Due from other governmental agencies	-	826,270	-
Inventory	460,605	(92,455)	-
Prepaid expenses and other current assets	6,228	(42,420)	(37,361)
Deferred gas charges	(389,222)	-	-
Accounts payable	(88,335)	(413,065)	39,526
Accrued liabilities	408,667	353,542	(428,667)
Unearned revenue	-	2,107,201	-
Due to/from other funds	(7,061,916)	(4,284,813)	616,159
Deposits	(4,390)	167,699	-
Deferred inflow of resources	(161,045)	-	-
Accrued postemployment benefits	(54,907)	153,754	872,455
Accrued compensated absences	(74,693)	(24,953)	(24,221)
Net cash provided by (used for) operating activities	\$ 5,940,459	\$ (1,950,736)	\$ 2,341,217
Noncash investing, capital and financing activities:			
Receipt of contributed electric system assets from developers	\$ 193,198	\$ 136,383	\$ 314,879
Change in derivative financial instruments	\$ 52,606	\$ -	\$ -

Parks	Drainage Improvement District #1	Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ (1,601,277)	\$ (226,305)	\$ (317,069)	\$ (74,841)	\$ (208,173)	\$ -	\$ 5,495,855
354,946	49,020	-	112,162	82,476	-	6,205,348
(24,383)	(49,112)	-	-	-	-	-
6,240	-	-	6,942	3,743	-	(85,537)
-	(77,433)	-	-	-	-	748,837
-	-	-	-	(36,184)	-	331,966
(6,802)	(2)	-	(181,525)	(22,650)	-	(284,532)
-	-	-	-	-	-	(389,222)
(3,905)	-	(109,411)	(25,052)	1,263	-	(598,979)
24,634	-	15,500	(438,831)	29,152	-	(36,003)
-	(147)	-	-	-	-	2,107,054
1,380,838	(45,349)	280,915	9,025,082	89,084	-	-
(21,037)	-	-	968	5,819	-	149,059
-	-	-	-	-	-	(161,045)
40,571	81	15	(198,983)	11,243	-	824,229
1,602	-	-	32,522	-	-	(89,743)
<u>\$ 151,427</u>	<u>\$ (349,247)</u>	<u>\$ (130,050)</u>	<u>\$ 8,258,444</u>	<u>\$ (44,227)</u>	<u>\$ -</u>	<u>\$ 14,217,287</u>
<u>\$ 11,662</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 676,122</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,606</u>

**MERCED IRRIGATION DISTRICT**  
**DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP'S AND BONDS -**  
**ELECTRIC SERVICES**

For the year ended March 31, 2014

Net income		\$	5,780,326
Add back:			
Depreciation and amortization			2,949,152
Bond interest expense			4,808,842
Less:			
Capital contribution revenue			193,198
Reconciled net revenue		\$	13,345,122
COP debt service related to outstanding COPs and Bonds		\$	5,903,029
Debt service coverage			226%
Required debt service coverage			125%

**MERCED IRRIGATION DISTRICT**  
**DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP'S -**  
**WATER SERVICES**

For the year ended March 31, 2014

Net income		\$	105,692
Add back:			
Depreciation and amortization			1,882,301
Bond interest expense			201,164
Less:			
Capital contribution revenue			136,383
Reconciled net revenue		\$	2,052,774
COP debt service related to outstanding COPs		\$	637,883
Debt service coverage			322%
Required debt service coverage			125%

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