

MERCED IRRIGATION DISTRICT
AUDITED FINANCIAL STATEMENTS
December 31, 2006

MERCED IRRIGATION DISTRICT
AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Merced Irrigation District
Merced, California

We have audited the accompanying basic financial statements of the Merced Irrigation District (the District) as of December 31, 2006 and 2005 for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2006 and 2005 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note M, certain changes were made to previously reported assets, net assets, and expenses as of December 31, 2005 and 2004 during the current year. Accordingly, an adjustment has been made to net assets as of December 31, 2004 and assets, and expenses as of December 31, 2005 to correct the errors.

The Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Richardson & Company

April 6, 2007



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2006

Management's discussion and analysis of the Merced Irrigation District's (the District) financial performance provides an overview of the District's activities as well as its financial condition for the year ended December 31, 2006. The District's 2005 and 2004 financial results have been restated for purposes of providing comparative data. This discussion and analysis should be read in conjunction with the financial statements, including the notes to the financial statements, beginning on page 13.

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

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

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

Background

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

The District provides irrigation water to approximately 420,000 acres within its Sphere of Influence (SOI) which includes the majority of land lying east of the San Joaquin River within the county of Merced. The District distributes water through an 815-mile system of dirt and concrete-lined channels and pipelines. In 2006, the District delivered 263,464 acre feet of irrigation water to approximately 3,300 landowners.

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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. Over 600 campsites are available to the public on a year-round basis. Floating marinas are located on Lake McSwain and in two locations on Lake McClure for the boating public. Recreational activities enjoyed in the recreation areas include fishing, boating, swimming, camping, hiking and bicycling. In 2006, the various Parks locations had a combined 730,028 visitor days.

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

The District is authorized to act as an electric utility under the California Water Code. The District has owned and operated hydroelectric generating facilities on the Merced River since 1927. In 1995, the District exercised its authority to sell power to retail electric customers. The District offers its customers full requirements electric service including power supply and delivery to the customer. Since 1996, the District has connected over 7,000 customers to the District's electric system, hooking up an average of 125 meters per month in 2006. The District's electric customers consumed 83 megawatts of peak electricity demand at the height of the 2006 summer season.

In addition to providing irrigation water, the District also uses its existing irrigation distribution system for local flood control by routing local foothills runoff and stream flood waters away from populated areas. The District formed the Merced Irrigation District Drainage District #1 (MIDDID#1) in 1994. At the end of 2006, there were approximately 13,800 residential, commercial, industrial, and government parcels located primarily within the urban area of the District that received drainage service.

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) Balance Sheet, (2) Statement of Revenues, Expenses, and Changes in Net Assets, and (3) Statement of Cash Flows. The financial statements are prepared using the accrual basis of accounting.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial data provided and are an integral part of the District's financial statements. The District provides a presentation of both the combined financial statements as well as supplemental combining financial statements which portray the individual 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 *Balance Sheet* 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.

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All of the current year's revenues and expenses are accounted for in the *Statements of Revenues, Expenses, and Changes in Net Assets*. These statements measure 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 these statements. They are 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 *Statements of Cash Flows*. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period as well as net changes in cash resulting from operations, investing, and financing activities. The statements explain where cash came from and where cash was used and the change in the cash balance during the reporting period.

Financial Highlights

- The District's total assets increased by \$7.6 million in 2006, excluding derivative financial instruments which decreased by \$14.5 million. Total liabilities decreased by \$0.7 million excluding the corresponding liability for unrealized gain / loss on derivative instruments. The net result of this activity is a favorable increase in net assets of \$8.3 million.
- Operating revenue of \$58.7 million and operating expense of \$55.7 million resulted in net income from operations of \$3.0 million. In addition, there was non-operating expense of \$0.1 million consisting of \$2 million in property tax revenue, \$2.2 million in interest income, \$1.1 million in miscellaneous income and \$5.4 million in interest expense. The District also received capital contributions totaling \$5.4 million. The effect of these activities resulted in a favorable change in net assets of \$8.3 million.
- The District had positive cash flow from operations of \$9.4 million in 2006. Cash flow from non-operations including tax receipts and miscellaneous revenue contributed an additional \$1.2 million. The District spent \$12.7 million on the construction of capital assets and \$8.1 million on principal and interest payments. For 2006, the District experienced an overall decrease of \$4.8 million in its cash position, and an ending cash balance of \$44.6 million.

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Financial Analysis of the District

The District's Condensed Balance Sheets as of December 31 are as follows:

CONDENSED BALANCE SHEET

	<u>2006</u>	<u>Restated 2005</u>	<u>Restated 2004</u>
ASSETS			
Capital assets, net	\$ 132,451,471	\$ 121,639,568	\$ 114,666,543
Other non-current assets	9,437,026	8,889,087	4,453,787
Current assets	<u>55,189,709</u>	<u>73,405,227</u>	<u>56,120,418</u>
Total assets	<u>\$ 197,078,206</u>	<u>\$ 203,933,882</u>	<u>\$ 175,240,748</u>
LIABILITIES			
Long-term liabilities	\$ 112,693,297	\$ 115,117,169	\$ 94,491,878
Other liabilities	5,031,069	2,961,527	2,675,211
Current liabilities	<u>6,715,552</u>	<u>21,550,074</u>	<u>9,908,463</u>
Total liabilities	<u>\$ 124,439,918</u>	<u>\$ 139,628,770</u>	<u>\$ 117,075,552</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 36,688,013	\$ 27,378,309	\$ 26,942,650
Restricted	14,800,793	5,483,208	11,185,963
Unrestricted	<u>21,149,482</u>	<u>21,443,595</u>	<u>20,036,583</u>
Total net assets	<u>\$ 72,638,288</u>	<u>\$ 64,305,112</u>	<u>\$ 58,165,196</u>
Total liabilities and net assets	<u>\$ 197,078,206</u>	<u>\$ 203,933,882</u>	<u>\$ 175,240,748</u>

CAPITAL ASSETS DETAIL

	<u>2006</u>	<u>Restated 2005</u>	<u>Restated 2004</u>
Distribution system, net	\$ 69,992,658	\$ 61,727,515	\$ 58,296,701
Land and easements	13,138,738	13,138,738	12,407,862
Structures and improvements, net	29,240,415	29,234,829	29,513,322
Equipment, net	4,619,405	4,618,164	4,227,054
Intangible assets, net	2,181,074	2,344,022	2,530,170
Construction in progress	<u>13,279,181</u>	<u>10,576,300</u>	<u>7,691,434</u>
	<u>\$ 132,451,471</u>	<u>\$ 121,639,568</u>	<u>\$ 114,666,543</u>

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Significant Capital Asset Activity – Capital assets, net increased by \$10.8 million in 2006 due to capital project spending. The increase came from \$5.4 million in capital contributions both cash and non-cash, COP construction funding and cash reserves. Capital assets, net increased by \$7 million in 2005 also due primarily to capital project spending. This increase in capital project spending was funded by internally generated cash and COP construction funding. The District continued to develop and improve its distribution system in 2006; the entire distribution system asset base including construction in progress increased by \$11.0 million in 2006 compared to \$6.3 million in 2005. Of this amount, third-party contributions amounted to \$5.4 million and \$1.3 million, respectively.

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

Significant Long-term Debt Activity - At December 31, 2006 the District had long-term debt outstanding of \$110.2 million. At December 31, 2005 the District had long-term debt outstanding of \$112.7 million compared to \$92.5 million in 2004. The current amount is comprised of \$109.1 million of revenue bonds, certificates of participation, and warrants, \$0.3 million of notes payable and \$0.8 million of capital leases.

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

Significant Net Asset Activity – The District’s net assets invested in capital assets increased by \$9.3 million in 2006. This corresponds with the increase in the District’s capital assets in 2006. The balance of net assets is comprised of \$14.8 million of restricted net assets which are subject to external restrictions on their use, and \$21.1 million of unrestricted net assets. The District’s assets exceeded liabilities by \$72.6 million. The District’s net assets invested in capital assets for 2005 increased \$4 million due to the District’s continuing expansion of its distribution system. Capital assets are not liquid nor are they available for future spending but have been acquired over time and through their utilization, provide the District with revenue.

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

CONDENSED STATEMENT OF REVENUES , EXPENSES AND CHANGES IN NET ASSETS

	2006	Restated 2005	Restated 2004
Operating revenue	\$ 58,728,270	\$ 53,209,910	\$ 2,570,500
Operating expense	55,692,842	7,627,927	5,684,830
Net income from operations	3,035,428	5,581,983	6,885,670
Non-operating revenue (expense)	(76,141)	(2,440,713)	(3,213,330)
Net income before capital contributions	2,959,287	3,141,270	3,672,340
Capital contributions	5,373,889	2,998,646	1,302,527
Change in net assets	8,333,176	6,139,916	4,974,867
Net assets, beginning of year	64,305,112	57,158,647	51,522,570
Prior period adjustments		1,006,549	661,210
Net assets, beginning of year, as restated	64,305,112	58,165,196	52,183,780
Net assets, end of year	\$ 72,638,288	\$ 64,305,112	\$ 57,158,647

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Net income from operations of \$3.0 million for 2006 decreased from \$5.6 million in 2005. This reduction was due to an increase in power supply cost in excess of corresponding revenue. Net income from operations for 2005 of \$5.6 million is a small decrease from the \$6.9 million in 2004. The primary reason for the decrease is reduced water sales. In 2006, Non-operating expense of \$0.1 million is the result of non-operating revenue of \$5.3 million, offset by interest expense of \$5.4 million. Contributed revenue of \$5.4 million is comprised of non-cash developer contributions and third-party cash proceeds used for capital projects.

Economic Factors and Rates

In 2006, the District continued to experience significant change as well as rapid growth. To maintain pace with increasing expenses due to rising inflation, recently imposed unforeseen regulatory fees, and a significant reduction in tax revenue, the District raised water rates \$1.00 per acre foot through the imposition of a State Recovery Fee Charge. Also, certain parks and recreation fees were slightly increased. The District added approximately 1,500 new industrial, commercial, municipal, agricultural, and residential electric services accounts while modestly raising rates. Finally, 1,193 parcels comprising approximately 126 acres were added to the drainage district.

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 Jeff Bixby, Director of Finance, PO Box 2288, Merced, CA 95344-0288 or please call (209) 722-5761.

MERCED IRRIGATION DISTRICT

BALANCE SHEETS

December 31, 2006 and 2005

	<u>2006</u>	<u>Restated 2005</u>
ASSETS		
CAPITAL ASSETS, NET	\$ 132,451,471	\$ 121,639,568
OTHER NONCURRENT ASSETS		
Deferred relicense costs	4,166,822	3,234,196
Debt issuance costs	<u>5,270,204</u>	<u>5,654,891</u>
TOTAL OTHER NONCURRENT ASSETS	9,437,026	8,889,087
CURRENT ASSETS		
Cash and cash equivalents	17,663,890	17,916,007
Accounts receivable, net	6,718,851	6,355,691
Due from other governmental agencies	1,115,768	766,344
Accrued interest and taxes receivable	1,433,617	649,755
Inventory	2,910,003	2,927,942
Prepaid expenses and other current assets	1,141,715	524,254
Swap sale receivable	265,052	1,253,529
Restricted cash and cash equivalents	26,933,966	31,527,364
Derivative financial instruments	<u>(2,993,153)</u>	<u>11,484,341</u>
TOTAL CURRENT ASSETS	<u>55,189,709</u>	<u>73,405,227</u>
TOTAL ASSETS	<u>\$ 197,078,206</u>	<u>\$ 203,933,882</u>

	2006	Restated 2005
LIABILITIES AND NET ASSETS		
LONG-TERM LIABILITIES		
Long-term debt	\$ 110,243,153	\$ 112,696,616
Accrued compensated absences	1,113,266	1,002,432
Accrued post-employment benefits	1,336,878	1,418,121
TOTAL LONG-TERM LIABILITIES	112,693,297	115,117,169
OTHER LIABILITIES		
Deferred public purpose program revenues	1,997,019	2,063,834
Deferred power cost reductions	2,100,000	
Deposits	934,050	897,693
TOTAL OTHER LIABILITIES	5,031,069	2,961,527
CURRENT LIABILITIES		
Accounts payable	1,303,314	1,075,000
Accrued permission fees	719,585	639,396
Accrued power purchase expense	2,230,528	3,091,511
Other accrued expenses	888,140	568,494
Deferred revenue	420,822	414,897
Accrued interest payable	1,449,668	775,687
Deferred credit - unrealized (loss) gain on swap contracts	(2,993,153)	11,484,341
Current portion of long-term debt	2,696,648	3,500,748
TOTAL CURRENT LIABILITIES	6,715,552	21,550,074
TOTAL LIABILITIES	124,439,918	139,628,770
NET ASSETS		
Invested in capital assets, net of related debt	36,688,013	27,378,309
Restricted	14,800,793	15,483,208
Unrestricted	21,149,482	21,443,595
TOTAL NET ASSETS	72,638,288	64,305,112
TOTAL LIABILITIES AND NET ASSETS	\$ 197,078,206	\$ 203,933,882

The notes to the basic financial statements are an integral part of this statement.

MERCED IRRIGATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>Restated 2005</u>
OPERATING REVENUES		
Electric sales and services	\$ 40,494,819	\$ 35,690,194
Water sales and services	8,192,876	8,204,013
Hydroelectric sales and services	5,424,375	5,030,982
Water transfers	2,802,443	2,710,385
Recreation fees	1,714,032	1,455,641
Storm drainage fees	99,725	118,695
TOTAL OPERATING REVENUES	<u>58,728,270</u>	<u>53,209,910</u>
OPERATING EXPENSES		
Purchase of power	21,510,455	19,618,139
Water distribution	11,697,648	11,721,649
Electric transmission and distribution	14,502,197	8,715,553
Recreation	1,605,656	1,631,518
Storm drainage	36,671	45,174
Administrative and general	1,780,271	1,880,802
Depreciation and amortization	4,559,944	4,015,092
TOTAL OPERATING EXPENSES	<u>55,692,842</u>	<u>47,627,927</u>
NET INCOME FROM OPERATIONS	3,035,428	5,581,983
NON-OPERATING REVENUE (EXPENSES)		
Property taxes	2,037,205	794,831
Interest income	2,225,363	1,188,560
Other non-operating income	745,243	1,341,289
Gain on disposal of capital assets	324,431	73,743
Interest expense	(5,408,383)	(5,839,136)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(76,141)</u>	<u>(2,440,713)</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	2,959,287	3,141,270
CAPITAL CONTRIBUTIONS	5,373,889	2,998,646
TOTAL CAPITAL CONTRIBUTIONS	<u>5,373,889</u>	<u>2,998,646</u>
CHANGE IN NET ASSETS	8,333,176	6,139,916
Net assets at beginning of year	64,305,112	57,158,647
Prior period adjustments		1,006,549
Net assets at beginning of year, as restated	<u>64,305,112</u>	<u>58,165,196</u>
NET ASSETS AT END OF YEAR	<u>\$ 72,638,288</u>	<u>\$ 64,305,112</u>

The notes to the basic financial statements are an integral part of this statement.

MERCED IRRIGATION DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>Restated 2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 58,316,678	\$ 54,748,708
Cash paid to suppliers for goods and services	(38,650,953)	(34,258,774)
Cash paid to employees for services	<u>(10,208,783)</u>	<u>(9,386,317)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,456,942	11,103,617
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	1,278,651	569,965
Relicense costs incurred	(660,923)	(567,853)
Proceeds from issuance of debt		5,071,950
Issuance costs paid		(152,735)
Interest payments on long term debt	(155,000)	67,513
Other income/expenses	<u>733,934</u>	<u>1,120,189</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,196,662	6,109,029
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(12,701,380)	(10,030,937)
Proceeds from sale of equipment	381,337	73,743
Grants received for capital assets	2,744,775	1,928,487
Principal payments on long-term debt	(3,438,167)	(65,621,119)
Proceeds from issuance of debt		80,096,906
Issuance costs paid	(27,787)	(4,962,581)
Interest payments on long-term debt	<u>(4,657,952)</u>	<u>(6,417,809)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(17,699,174)	(4,933,310)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>2,200,055</u>	<u>1,080,664</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,200,055	1,080,664
(DECREASE) INCREASE IN CASH	(4,845,515)	13,360,000
Cash and cash equivalents at beginning of year	<u>49,443,371</u>	<u>36,083,371</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 44,597,856</u>	<u>\$ 49,443,371</u>
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 17,663,890	\$ 17,916,007
Restricted	<u>26,933,966</u>	<u>31,527,364</u>
	<u>\$ 44,597,856</u>	<u>\$ 49,443,371</u>

(Continued)

MERCED IRRIGATION DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2005 and 2004

	<u>2006</u>	<u>Restated 2005</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 3,035,428	\$ 5,581,983
Adjustments to reconcile net income from operations to net cash used for operating activities:		
Depreciation and amortization	4,559,944	4,015,092
Changes in operating assets and liabilities:		
Accounts receivable	(363,160)	(226,981)
Due from other governmental agencies	(23,899)	609,750
Inventory	17,939	179,472
Prepaid expenses and other current assets	(617,461)	75,697
Swap sale receivable	988,477	1,873,981
Accounts payable	215,765	328,441
Accrued permission fees	80,189	55,840
Accrued power purchase expense	(860,983)	835,717
Other accrued expenses	319,645	38,124
Deferred revenue	5,925	(136,180)
Deferred power cost reduction	2,100,000	
Deposits	36,357	171,289
Deferred swap sale		(2,876,148)
Deferred public purpose program revenues	(66,815)	115,027
Accrued postemployment benefits	(81,243)	531,189
Accrued compensated absences	110,834	(68,676)
	<u>\$ 9,456,942</u>	<u>\$ 11,103,617</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Receipt of contributed electric system assets from developers	\$ 2,314,898	\$ 833,569
Change in derivative financial instruments	\$ (14,477,494)	\$ 5,646,266

The notes to the basic financial statements are an integral part of this statement.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE A--REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The District has created the Merced Irrigation District Public Facilities Financing Corporation (MIDPFFC) to provide assistance to the District in the issuance of debt and 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. Although legally separate from the District, the MIDPFFC and 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, respectively. Debt issued by the MIDPFFC is reflected as debt of the District in these financial statements. The MIDPFFC issued debt for the construction of the administration building and the District leases the building from the MIDPFFC. This lease revenue is eliminated in these basic financial statements. The MIDPFFC and MIDDID#1 do not issue separate financial statements.

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

The Walnut Energy Center Authority (WECA) was created in December, 2003 under a joint exercise of powers agreement between the District and the Turlock Irrigation District (TID) (the Parties) for the purpose of providing an entity that can assist in providing financings through the sale and issuance of bonds for projects which are authorized in the Joint Powers Act. WECA is administered by a Commission which is comprised of members of the Board of Directors of TID, sitting ex officio, together with one member of the Board of Directors of the District. The agreement terminates in December, 2033, unless extended or terminated by the Parties. Upon termination of the agreement all of the WECA assets shall be distributed to TID.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE A--REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. When funds are received in advance of program expenditures, they are recorded as deferred revenues until earned. Earned but unbilled electric and water services are accrued as revenue. Infrastructure 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 nonexchange transactions or ancillary activities.

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

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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", 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 Change in Net Assets as incurred, are recognized when included in rates and recovered from, or refunded to, customers.

A portion of the District's annual power supply requirement is purchased from the Western Area Power Administration (WAPA). In 2006, due to increased hydroelectric production by WAPA, the District's allotment was significantly higher than anticipated. The comparatively low cost of this power offset higher priced power, causing a reduction of the District's expected overall power supply cost in 2006. This reduction in cost resulted in excess net income that is available to offset the projected power supply cost increase in 2007. A portion of the

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE A--REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

power supply cost reduction, \$2,100,000, was deferred in accordance with SFAS 71 for the benefit of future customer rate stabilization and is recorded as deferred power cost reductions on the Balance Sheet at December 31, 2006.

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
Buildings and structures	10-100 years
Transmission and distribution systems	15-50 years
Machinery	30-35 years
Vehicles	3-10 years
Equipment	3-40 years
Intangible assets	10-50 years

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

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

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

Accounts Receivable: Accounts receivable arise from billings to customers for water and electricity usage and include an estimate for unbilled revenues earned from the dates the customers were last billed to the end of the year. An estimate of the uncollectible amount is \$191,028 at December 31, 2006 and \$87,385 at December 31, 2005.

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

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

Derivative Financial Instruments: The District uses swap agreements to hedge the impact of market volatility of electricity and natural gas commodity prices for purchases of electricity for the District's retail load. The District records these derivative financial instruments at fair value on its balance sheet. Fair value is estimated by comparing contract prices to forward market prices quoted by third party market participants. While the District enters into swap agreements for hedging purposes, it currently does not formally declare the contracts as hedging activities at

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE A--REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the time of executing the trade. The Board defers recognition of the unrealized gains or losses from such instruments for rate-making purposes; the balance is reflected as deferred credit-unrealized (loss) gain on swap agreements on the balance sheet and is charged or credited into electricity supply costs as the related asset or liability is utilized.

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

Deferred Public Purpose Revenues: The District is required by the Public Utilities Code to establish a usage-based charge on its electricity sales of 2.85%, 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.

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

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.

The District experienced reductions in its property tax revenue due to the State of California's Education Revenue Augmentation Fund (ERAF). The District had reductions of approximately \$1,100,000 in 2005 and \$550,000 in 2006, with no reductions expected after that time.

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

NOTE B--CASH AND INVESTMENTS

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

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 17,663,890	\$ 17,916,007
Restricted cash and cash equivalents	<u>26,933,966</u>	<u>31,527,364</u>
Total cash and investments	<u>\$ 44,597,856</u>	<u>\$ 49,443,371</u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE B--CASH AND INVESTMENTS (Continued)

Cash and investments as of December 31, consisted of the following:

	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 2,920	\$ 2,620
Deposits with financial institutions	<u>11,140,950</u>	<u>12,440,488</u>
Total cash	11,143,870	12,443,108
Money market mutual funds	21,808,443	25,189,551
Guaranteed investment contract	3,953,486	4,450,180
Investments in LAIF	<u>7,692,057</u>	<u>7,360,532</u>
Total investments	<u>33,453,986</u>	<u>37,000,263</u>
	<u>\$ 44,597,856</u>	<u>\$ 49,443,371</u>

Investment policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy. During the year ended December 31, 2006, the District's permissible investments included the following instruments:

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

*Excluding amounts held by bond trustees that are not subject to California Government Code restrictions.

The District complied with the 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 (Continued)

December 31, 2006 and 2005

NOTE B--CASH 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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.

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

	<u>Remaining Maturity (in Months)</u>		
	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>
Local Agency Investment Funds	\$ 6,620,020	\$ 6,620,020	
Held by bond trustee:			
Money Market Mutual Funds	21,808,443	21,808,443	
Guaranteed Investment Contract	3,953,486		\$ 3,953,486
Local Agency Investment Funds	<u>1,072,037</u>	<u>1,072,037</u>	
	<u>\$ 33,453,986</u>	<u>\$ 29,500,500</u>	<u>\$ 3,953,486</u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE B--CASH AND INVESTMENTS (Continued)

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 year end for each investment type.

Investment Type	Minimum Legal Rating	Total	AAA/Aaa	AA/A-1+	Unrated
Local Agency Investment Funds	Unrated	\$ 6,620,020			\$ 6,620,020
Held by bond trustee:					
Money Market Mutual Funds	AAA/Aaa	21,808,443	\$ 21,808,443		
Guaranteed Investment Contract	AA/A-1+	3,953,486		\$ 3,953,486	
Local Agency Investment Funds	Unrated	1,072,037			1,072,037
		<u>\$ 33,453,986</u>	<u>\$ 21,808,443</u>	<u>\$ 3,953,486</u>	<u>\$ 7,692,057</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 and LAIF. As of December 31, 2006, the District invested \$3,953,486 in a guaranteed investment contract issued by AIG, which represents more than 5% of its total investment in any one issuer (other than mutual funds and external investment pools).

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

At December 31, 2006, the carrying amount of the District's deposits was \$11,140,950 and the balance in financial institutions was \$14,319,787. Of the balance in financial institutions, \$254,382 was covered by federal depository insurance and \$14,065,405 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. As of December 31, 2006, District investments in guaranteed investment contracts reported at \$3,953,486 were held by the same broker-dealer (counterparty) that was used by the District to buy the securities.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE B--CASH AND INVESTMENTS (Continued)

Investment in LAIF: LAIF is stated at fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$57,523,016,604 managed by the State Treasurer. Of that amount, 96.816 percent is invested in non-derivative financial products and 3.184 percent in derivative financial products and structured financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE C--CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2006 and 2005 are as follows:

	Balance January 1, 2006	Additions	Disposals	Transfers and Adjustments	Balance December 31, 2006
Capital assets not being depreciated:					
Land	\$ 13,138,738				\$ 13,138,738
Construction in progress	10,576,300	\$ 14,272,004		\$ (11,569,123)	13,279,181
Total capital assets not being depreciated	23,715,038	14,272,004		(11,569,123)	26,417,919
Capital assets being depreciated:					
Landscaping	5,671,728				5,671,728
Buildings and structures	48,609,926			1,061,200	49,671,126
Water distribution system	13,462,313		\$ (1,751)	424,162	13,884,724
Electric transmission and distribution system	60,453,300			10,083,761	70,537,061
Machinery and equipment	9,261,229	91,925	(14,252)		9,338,902
Vehicles	7,120,664	608,787	(752,601)		6,976,849
Intangible plant	8,300,435	43,563			8,343,998
Total capital assets being depreciated	152,879,595	744,274	(768,604)	11,569,123	164,424,388
Less accumulated depreciation for:					
Landscaping	(4,107,750)	(205,756)			(4,313,506)
Buildings and structures	(20,939,075)	(849,858)			(21,788,933)
Water distribution system	(3,558,279)	(365,246)	1,751		(3,921,774)
Electric transmission and distribution system	(8,629,819)	(1,877,534)			(10,507,353)
Machinery and equipment	(6,207,523)	(255,134)	14,242		(6,418,415)
Vehicles	(5,556,206)	(417,430)	695,705		(5,277,931)
Intangible plant	(5,956,413)	(206,511)			(6,162,924)
Total accumulated depreciation	(54,955,065)	(4,147,469)	711,698		(58,390,836)

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE C--CAPITAL ASSETS (Continued)

	Balance January 1, 2006	Additions	Disposals	Transfers and Adjustments	Balance December 31, 2006
Total capital assets being depreciated, net	\$ 97,924,530	\$ (3,403,195)	\$ (56,906)	\$ 11,569,123	\$ 106,033,522
Capital assets, net	\$ 121,639,568	10,868,809	\$ (56,906)	\$ -	\$ 132,451,471
	Balance January 1, 2005 (as restated)	Additions	Disposals	Transfers and Adjustments	Balance December 31, 2005 (as restated)
Capital assets not being depreciated:					
Land	\$ 12,407,862			\$ 730,876	\$ 13,138,738
Construction in progress	7,691,434	\$ 10,545,754		(7,660,888)	10,576,300
Total capital assets not being depreciated	\$ 20,099,296	10,545,754		(6,930,012)	23,715,038
Capital assets being depreciated:					
Landscaping	5,061,957			609,771	5,671,728
Buildings and structures	48,435,523			174,403	48,609,926
Water distribution system	12,458,785			1,003,526	13,462,313
Electric transmission and distribution system	56,067,832			4,385,470	60,453,300
Machinery and equipment	8,380,501	130,446	\$ (6,559)	756,842	9,261,229
Vehicles	7,088,719	164,311	(132,367)		7,120,664
Intangible plant	8,276,445	23,990			8,300,435
Total capital assets being depreciated	145,769,762	318,747	(138,926)	6,930,012	152,879,595
Less accumulated depreciation for:					
Landscaping	(3,879,614)	(228,136)			(4,107,750)
Buildings and structures	(20,104,544)	(834,531)			(20,939,075)
Water distribution system	(3,211,598)	(346,680)			(3,558,279)
Electric transmission and distribution system	(7,018,318)	(1,611,501)			(8,629,819)
Machinery and equipment	(5,985,895)	(231,187)	6,559		(6,207,523)
Vehicles	(5,259,271)	(429,302)	132,367		(5,556,206)
Intangible plant	(5,746,275)	(210,139)			(5,956,413)
Total accumulated depreciation	(51,202,515)	(3,891,476)	138,926		(54,955,065)
Total capital assets being depreciated, net	94,567,247	(3,572,729)		6,930,012	\$ 97,924,530
Capital assets, net	\$ 114,666,543	\$ 6,973,025	\$ -	\$ -	\$ 121,639,568

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE D--LONG-TERM LIABILITIES

Long-term liabilities include long-term debt, capital leases and accrued compensated absences. The activity of the District's long-term liabilities during the years ended December 31, 2006 and 2005 are as follows:

	Balance January 1, 2006	Additions	Repayments	Balance December 31, 2006	Due Within One Year
Long-term debt:					
Merced River Development					
Bonds	\$ 11,930,000		\$ (1,175,000)	\$ 10,755,000	\$ 1,220,000
1998 Note payable	367,054		(17,887)	349,167	19,361
2001 Certificates of Participation	7,000,000		(735,000)	6,265,000	760,000
2003 Revenue Certificates of Participation	14,530,000		(200,000)	14,330,000	210,000
2003 Taxable Electric System Revenue Warrants	820,000		(820,000)		
2005 Electric System Refunding Revenue Bonds	63,050,000			63,050,000	
2005 Revenue Certificates of Participation	15,000,000			15,000,000	
2005 Warrants	5,000,000			5,000,000	
Pioneer Substation Note Payable	669,817		(334,908)	334,909	334,909
	<u>118,366,871</u>		<u>(3,282,795)</u>	<u>115,084,076</u>	<u>2,544,270</u>
Capital leases	<u>1,059,127</u>		<u>(225,469)</u>	<u>833,658</u>	<u>152,378</u>
Total	119,425,998		<u>\$ (3,508,264)</u>	115,917,734	<u>\$ 2,696,648</u>
Add: Deferred amount on refunding	(4,939,355)			(4,559,330)	
Bond discounts	(408,135)			(380,748)	
Bond premiums	2,118,856			1,962,145	
Less: Current portion of Long-term debt	<u>(3,500,748)</u>			<u>(2,696,648)</u>	
Total long-term debt	<u>\$ 112,696,616</u>			<u>\$ 110,243,153</u>	
Accrued compensated absences	<u>\$ 1,002,432</u>	<u>\$ 110,834</u>		<u>\$ 1,113,266</u>	

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE D--LONG-TERM LIABILITIES (Continued)

	Balance January 1, 2005	Additions	Repayments	Balance December 31, 2005	Due Within One Year
Long-term debt:					
Merced River Development Bonds	\$ 13,060,000		\$ (1,130,000)	\$ 11,930,000	\$ 1,175,000
1998 Note payable	383,579		(16,525)	367,054	17,887
2001 Certificates of Participation	7,720,000		(720,000)	7,000,000	735,000
2001 Electric System Refunding Revenue Bonds	56,455,000		(56,455,000)		
2002 Revenue Certificates of Participation	4,885,000		(4,885,000)		
2003 Revenue Certificates of Participation	14,720,000		(190,000)	14,530,000	200,000
2003 Taxable Electric System Revenue Warrants	2,440,000		(1,620,000)	820,000	820,000
2005 Electric System Refunding Revenue Bonds		\$ 63,050,000		63,050,000	
2005 Revenue Certificates of Participation		15,000,000		15,000,000	
2005 Warrants		5,000,000		5,000,000	
Pioneer Substation Note Payable	1,004,726		(334,909)	669,817	334,909
	100,668,305		(65,351,434)	118,366,871	3,282,796
Capital leases	1,411,903		(352,776)	1,059,127	217,952
Total	102,080,208	\$ 83,050,000	\$ (65,704,210)	119,425,998	\$ 3,500,748
Add: Deferred amount on refunding	(3,173,915)			(4,939,355)	
Bond discounts	(1,435,387)			(408,135)	
Bond premiums	121,641			2,118,856	
Less: Current portion of Long-term debt	(5,058,709)			(3,500,748)	
Total long-term debt	\$ 92,533,838			\$ 112,696,616	
Accrued compensated absences	\$ 1,071,108		\$ (68,676)	\$ 1,002,432	

Long-Term Debt: Long-term debt consists of the following at December 31, 2006:

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. The interest rate is 3.75%. Semi-annual principal and interest payments ranging from \$809,625 to \$816,375 are due on January 1 and July 1 through July 1, 2014.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE D--LONG-TERM LIABILITIES (Continued)

1998 Note Payable: On April 13, 1998, the District purchased 610 acres of land in Mariposa County to provide road access and additional park development in exchange for cash of \$154,750 and an installment note of \$464,250. The note is secured by the land. The interest rate on the note is 8%. Principal and interest payments of \$11,681 are due quarterly through April 2008. A final principal payment of \$319,535 is due April 13, 2008.

2001 Certificates of Participation (Water Utility Facilities Improvements): On December 1, 2001, the District issued 2001 Certificates of Participation in the amount of \$9,780,000. Proceeds from these Certificates were used to advance refund the District's 1993 Certificates of Participation that were used to finance certain water system improvements and the remaining balance was used to finance the construction of the new administration building. Interest rates range from 3.375% to 4.75%. Principal payments ranging from \$120,000 to \$845,000 are due annually on November 1 through November 1, 2027. Interest payments ranging from \$6,056 to \$130,415 are due semi-annually on May 1 and November 1, through November 1, 2027. The District is required to maintain a ratio of water system net revenues to debt service of at least 120%.

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 4.5% to 5.7%. Principal payments ranging from \$210,000 to \$945,000 are due annually on September 1 through September 1, 2036. Interest payments ranging from \$26,933 to \$395,328 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%.

2003 Taxable Electric System Revenue Warrants: On March 1, 2003, the District issued 2003 Taxable Electric System Revenue Warrants in the amount of \$4,460,000. The proceeds were used to retire the District's obligation to the Turlock Irrigation District for the purchase of electricity under the power sales agreement dated January 1, 2001. The Warrants are secured by a lien on the District's electric system net revenues. The interest rate is 2.875%. A final principal and interest payment of \$831,788 was paid January 1, 2006.

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 5.25%. Principal payments ranging from \$300,000 to \$4,045,000 are due annually, starting on September 1, 2008 to 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 starting on September 1, 2008 through September 1, 2036. Interest payments ranging from \$24,938 to \$365,476 are due semi-annually on March 1, and September 1, through September 1, 2036. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

2005 Warrants: On September 22, 2005, the District issued 2005 Warrants in the amount of \$5,000,000. Proceeds from the warrants are to be used to finance the costs of relicensing the District's 1964 Merced River Development Project. The interest rate is 4.00%. A single principal payment of \$5,000,000 is due July 1, 2009. Interest payments of \$100,000 are due semi-annually on January 1, and July 1, through July 1, 2009.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE D--LONG-TERM LIABILITIES (Continued)

Pioneer Substation Note Payable: On May 21, 2003, the District purchased the Pioneer Substation from Foster Farms for \$2,009,433. The terms of the sale agreement required the District to pay \$334,909 at the close of escrow and execute an installment note of \$1,674,544. This note is non-interest bearing. Payments of \$334,909 are due annually on December 31 through December 31, 2007.

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

Year Ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,544,270	\$ 5,570,367	\$ 8,114,637
2008	3,169,806	5,474,777	8,644,583
2009	8,755,000	5,357,146	14,112,146
2010	3,890,000	5,020,805	8,910,805
2011	3,275,000	4,875,925	8,150,925
2012-2016	14,855,000	22,225,577	37,080,577
2017-2021	13,475,000	19,132,346	32,607,346
2022-2026	17,240,000	15,377,542	32,617,542
2027-2031	21,030,000	10,528,347	31,558,347
2032-2036	<u>26,850,000</u>	<u>4,433,943</u>	<u>31,283,943</u>
Total	<u>\$ 115,084,076</u>	<u>\$ 97,996,775</u>	<u>\$ 213,080,851</u>

Capital Leases: The District purchased heavy equipment under a capital lease with the final payment of \$48,570 due March 6, 2007. This lease qualifies as a capital lease and, therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception. The interest rate for this lease is 3.85%. Also included in capital leases is the present value of the sublease payments related to the electric distribution system and related facilities at the former Castle Air Force Base. The interest rate used to calculate the present value of the future minimum sublease payments is 4%. Payments on this sublease represent 7.5% of gross revenues received by the District from the sale of electric services to customers of the District in the Castle area and are due through 2013, at which time ownership of the electric distribution system will be transferred to the District.

The following is a schedule of the future minimum lease payments required under capital leases and the present value of the net minimum lease payments at December 31, 2006:

Year Ended December 31,	
2007	\$ 182,751
2008	134,181
2009	134,181
2010	134,181
2011	134,181
2012-2013	<u>225,579</u>
Total minimum lease payments	945,054
Less: Amount representing interest	<u>(111,396)</u>
Present value of minimum lease payments	<u>\$ 833,658</u>

Refundings: In November 2005, the District issued the 2005 Electric System Refunding Revenue Bonds in the amount of \$63,050,000 with an average interest rate of 5.11%, to refund \$55,835,000 of the 2001 Electric System Refunding Revenue Bonds and \$4,820,000 of the 2002 Revenue Certificates of Participation with an average interest rate of 6.68%. The net proceeds from this issuance were deposited into an irrevocable trust to provide for all future debt

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE D--LONG-TERM LIABILITIES (Continued)

service payments for the 2001 Electric System Refunding Revenue Bonds and the 2002 Revenue Certificates of Participation. As a result, the 2001 Electric System Refunding Revenue Bonds and the 2002 Revenue Certificates of Participation are considered defeased and the liability for these bonds has been removed from the District's financial statements. At December 31, 2005, \$5,040,830 of the 2002 Revenue Certificates of Participation were outstanding and are considered defeased.

The District completed the advance refunding to reduce its total debt service payments through September 1, 2036. The net economic gain (difference between the present value of the old and new debt service payments) of the 2005 Electric System Refunding Revenue Bonds is \$8,739,710.

The advance refunding resulted in differences between the reacquisition price and the net carrying amount of the outstanding debt of \$4,749,098 at December 31, 2005, net of accumulated amortization. This deferred amount on refunding, reported in the accompanying financial statements as a reduction in long-term debt, is being charged to operations over 29 years using the bonds-outstanding method.

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. The District performed calculations of excess investments earnings on various bonds and financings and at December 31, 2005, the District was in a negative arbitrage position. At December 31, 2006, the District had not received the current year arbitrage calculation but anticipates that the 2005 warrants may have an immaterial positive arbitrage position.

NOTE E--ENERGY SUPPLY PURCHASES AND COMMITMENTS

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 (Western), and PPM Energy, Inc. (PPM). Furthermore, TID provides wheeling, interconnection and ancillary services to the District under an interconnection agreement. The District has engaged The Energy Authority (TEA), formally Power Resource Managers, LLP (PRM), to assist with coordination of these agreements according to the District's resource management plan. The major agreements are described as follows:

Turlock Irrigation District: The District entered into a new two-year power supply agreement with TID for the period January 1, 2006 through December 31, 2007 to supply the District with power. This is a partial requirements power supply agreement that will supply 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 Daily Dow Jones North Path 15 index times 106% plus \$5 a megawatt-hour. During 2006, the District exercised its option to extend the agreement through April 2008, which reduces the price of power supply by \$0.25 a megawatt-hour, effective January 1, 2007. The District's purchases in 2006 and 2005 totaled \$22,889,743 and \$22,174,989, respectively.

Western Area Power Administration: Western 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 .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 \$10.34 and \$14.26 per megawatt hour in 2006 and 2005, respectively. The District's purchases in 2006 and 2005 totaled \$477,680 and \$195,238, respectively.

PPM Energy Inc.: The District entered into a twenty-five year power supply agreement with PPM 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

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE E--ENERGY SUPPLY PURCHASES AND COMMITMENTS (Continued)

\$54.95 per megawatt-hour. The District entered into a subsequent agreement to sell this wind energy back to PPM from January 1, 2006, through January 1, 2008. The price per megawatt-hour is 90% of the Powerdex hourly index at North Path 15 minus \$1.00. The District's purchases in 2006 and 2005 totaled \$632,804 and \$669,581, respectively. The District's sales back to PPM in 2006 and 2005 totaled \$442,743 and \$613,226, respectively.

Modesto Irrigation District (Modesto) : The District had an eleven month agreement with Modesto to purchase firm power supply expiring December 31, 2005. The District was obligated to purchase and Modesto was obligated to deliver a minimum of 6,000 megawatt hours to a maximum of 7,000 megawatt hours per month, with daily requirements consisting of up to a maximum of 5 megawatts off-peak and a minimum of 8 megawatts to a maximum of 14 megawatts peak energy. The energy is priced at the Dow Jones North Path 15 (NP15) index, plus 5%, plus \$1.50 per megawatt-hour plus full pass-through of Independent Systems Operator-related charges incurred by Modesto. The District's purchases in 2005 totaled \$6,270,225.

The District purchases swap agreements to manage market price risk under its current and previous agreements. All ongoing electricity swap agreements settle against the NP15 daily price index. This index was selected to link the swap agreements to the cost of electricity under the TID agreement. The District's objective in executing swap agreements is to fix its costs for power supply and hedge market price exposure. The net amount of electricity swap settlements paid in 2006 was \$1,586,342 and the net amount of swap settlements received in 2005 was \$6,241,854.

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% and 5.0% at December 31, 2006 and 2005, respectively. The estimated fair values of the District's swap agreements as of December 31, are as follows:

	2006			2005		
	Fixed Payment Obligation	Fair Value	Net Loss	Fixed Payment Obligation	Fair Value	Net Gain
Electricity Swaps	\$ 35,227,545	\$ 32,234,392	\$ (2,993,153)	\$ 26,617,856	\$ 38,102,197	\$ 11,484,341

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.

NOTE F--NET ASSETS

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

	2006	2005
Debt service payments	\$ 8,685,987	\$ 8,857,871
Federal Energy Regulatory Commission (FERC) Relicensing Costs	3,953,486	4,450,561
Mariposa County water rights settlement	1,080,730	1,137,138
Recreation plan operations and maintenance	1,074,447	1,031,742
Recreation plan future stage construction	6,143	5,767
	<u>\$ 14,800,793</u>	<u>\$ 15,483,208</u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE F--NET ASSETS (Continued)

The restrictions are for the following:

Restricted for debt service payments represents debt service reserves required by the related debt covenants.

Restricted for FERC Relicensing costs represents proceeds from warrants issued to fund costs to be incurred for relicensing the District's hydroelectric facility with FERC.

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 operations and maintenance represents unspent State of California grant proceeds restricted for the District's recreation plan operations and maintenance.

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.

Designations: Designations of unrestricted net assets are imposed by the Board of Directors to reflect future spending plans of current resources. Designations may be modified, amended or removed by Board action. At December 31, designations included:

	<u>2006</u>	<u>2005</u>
Rate stabilization	\$ 5,000,000	\$ 5,000,000
Electric Services working capital reserve	4,000,000	4,000,000
Parks capital projects reserve	40,000	
Federal Energy Regulatory Commission relicensing		1,000,000
Water Utility facilities improvements		<u>1,000,000</u>
Total	<u>\$ 9,040,000</u>	<u>\$ 11,000,000</u>

The designations are for the following:

Designated for rate stabilization represents the amount set aside for the funding of future unplanned water pumping costs.

Designated for Electric Services working capital reserve represents the amount set aside for future Electric Services working capital requirements.

Designated for Federal Energy Regulatory Commission relicensing represents the amount set aside for the funding of costs incurred to relicense the 1964 Merced River Development Project, scheduled to expire in 2014.

Designated for Water Utility facilities improvements represents the amount set aside for future Water Utility capital facilities improvements.

Designated for parks capital projects reserve represents the amount set aside for future capital projects within the parks.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE G--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 P Street, Sacramento, CA 95814.

Funding Policy: Active plan members are required to contribute 7% of their annual covered salary, of which the District contributes 4% of annual covered salaries on behalf of District employees and for their account. Contributions made by the District on behalf of the employees was \$365,973 for the year ended December 31, 2006. The District is required to contribute at an actuarially determined rate; the rate for January 1 to June 30, 2006 was 15.313% and for July 1 to December 31, 2006 was 12.020%. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

Annual Pension Cost: For the years ending December 31, 2006 and 2005, the District incurred an annual pension cost of \$1,248,543 and \$1,221,713, respectively. The required contribution was determined as part of the June 30, 2003 and 2004 actuarial valuations using entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary in duration of service ranging from 3.25% to 14.45% for miscellaneous members and (c) 3.25% payroll growth adjustment. Both (a) and (b) include an inflation component of 3%. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period (smoothed market value). The plan's excess assets are being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2004 was 27 years.

Three-Year Trend Information for the District

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>
December 31, 2004	\$ 953,703	100%
December 31, 2005	1,221,713	100%
December 31, 2006	1,248,543	100%

Required Supplementary Information – Funded Status of Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Assets Value</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Excess Assets (Unfunded Liability)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>(Unfunded Liability) As a % of Covered Payroll</u>
June 30, 2003	\$ 23,128,978	\$ 30,657,684	\$ (7,528,706)	75.4%	\$ 8,561,516	(87.9)%
June 30, 2004	23,637,254	34,286,605	(8,649,351)	74.8%	9,389,403	(92.1)%
June 30, 2005	28,701,283	36,272,673	(7,571,390)	79.1%	8,854,119	(85.5)%

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE H--POSTEMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits, the District provides certain healthcare benefits through the Association of California Water Agencies for retired employees until they reach Medicare eligibility age. Full-time employees become eligible for postemployment health care benefits if they reach the District's normal retirement age of 60 after working for the District for a minimum of five years. At December 31, 2006 and 2005, sixteen and eighteen retirees met those eligibility requirements, respectively. Covered retirees are not required to make contributions to receive the benefits. Retirees are required to contribute a \$60 monthly payment for dependent coverage. The accrued liability was \$1,336,878 at December 31, 2006 and \$1,418,121 at December 31, 2005. No assets are being set aside to fund these benefits. The net present value of the postemployment benefit obligation for 2006 and 2005 was estimated using a discount rate of 4% for both years. A health care premium inflation rate of 12% was also assumed for both years.

NOTE I--INSURANCE

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

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

<u>Coverage</u>	<u>ACWA/JPIA</u>	<u>Insurance</u>	<u>Commercial Deductible</u>
General and Auto Liability (includes public officials liability)	\$ 1,000,000	\$ 49,000,000	None
Property Damage	50,000	50,000,000	\$5,000 to 25,000
Fidelity	100,000		\$1,000
Workers' Compensation liability	2,000,000	Statutory	None
Dam failure liability		5,000,000	\$50,000

The District continues to carry commercial insurance for all other risks of loss to which the District is exposed. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Effective January 1, 1996, the District changed to ACWA/JPIA for workers' compensation liability coverage. Prior to January 1, 1996, the District was self-insured for workers' compensation. The District has recorded an accrual of \$30,489 and \$32,110 at December 31, 2006 and 2005, respectively, related to claims that were incurred during the self-insured period.

NOTE J--COMMITMENTS AND CONTINGENCIES

Mariposa County Water Rights Settlement: On March 1, 1960, the District entered into an agreement with Mariposa County for a fifty year right to stream flow from the Merced River. In exchange for this right, the District agreed to pay \$5,000,000 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 material adverse impact on the financial position of the District.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE J--COMMITMENTS AND CONTINGENCIES (Continued)

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.

NOTE K--LINE OF CREDIT

The District has a \$7,000,000 line of credit that expires on June 15, 2007. The interest rate on this line of credit is the Wall Street Journal prime rate plus 1% adjustable monthly. At December 31, 2006 and 2005, no amounts were outstanding on this line of credit. The line of credit is collateralized by the District's inventory, chattel paper, accounts, equipment and general intangibles. In conjunction with the \$7,000,000 line of credit, the District initiated a \$5,000,000 irrevocable standby letter of credit on April 14, 2006. The purpose of the letter of credit is to support a margin shortfall with electricity counterparties with whom the District has swap agreements, if and when necessary. In the event that the District accesses the letter of credit, an equal offsetting amount will be reserved against the line of credit and will not be available for any other use. Any amounts drawn against the letter of credit will be due immediately.

NOTE L--DISCLOSURE OF SEGMENT INFORMATION

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

	2006		2005 (restated)	
	Electric Services	Water Operations	Electric Services	Water Operations
CONDENSED BALANCE SHEET				
Assets:				
Capital assets	\$ 69,347,927	\$ 30,343,963	\$ 61,174,788	\$ 27,518,634
Other assets	5,005,778	170,672	5,311,708	186,926
Current assets	28,344,266	43,323,816	47,059,423	38,565,360
Total assets	<u>102,697,971</u>	<u>73,838,451</u>	<u>113,545,919</u>	<u>66,270,920</u>
Liabilities:				
Long-term and other liabilities	94,491,247	8,369,537	92,854,573	9,142,498
Inter-fund payables		17,002,362		13,950,287
Other current liabilities	2,957,329	1,916,071	17,773,173	2,186,832
Total liabilities	<u>97,448,576</u>	<u>27,287,970</u>	<u>110,627,746</u>	<u>25,279,617</u>
Net assets:				
Invested in capital assets, net of related debt	(9,195,681)	23,879,113	(13,898,808)	20,260,969
Restricted	7,360,770	1,243,294	7,764,429	1,149,881
Unrestricted	7,084,306	21,428,074	9,052,552	19,580,453
Total net assets	<u>\$ 5,249,395</u>	<u>\$ 46,550,481</u>	<u>\$ 2,918,173</u>	<u>\$ 40,991,303</u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE L--DISCLOSURE OF SEGMENT INFORMATION (Continued)

	2006		2005 (restated)	
	Electric Services	Water Operations	Electric Services	Water Operations
CONDENSED STATEMENT OF REVENUES, EXPENSES AND EXPENSES AND CHANGES IN NET ASSETS				
Operating revenues (pledged against bonds)	\$ 40,494,819	\$ 10,995,319	\$35,690,194	\$ 10,914,398
Depreciation and amortization expense	(2,332,090)	(1,139,464)	(1,846,292)	(1,129,698)
Other operating expenses	(32,925,585)	(13,662,168)	(25,393,344)	(13,793,992)
Operating income	<u>5,237,144</u>	<u>(3,806,313)</u>	<u>8,450,558</u>	<u>(4,009,292)</u>
Non-operating revenues (expenses):				
Property taxes		1,773,709		571,072
Other non-operating revenues	1,192,752	1,653,198	1,200,768	1,194,918
Interest expense	(4,695,119)	(392,302)	(4,926,078)	(438,430)
Capital contributions	2,390,001	2,983,888	1,066,126	1,934,291
Transfers out	(2,150,636)	(1,911,269)	(240,774)	(610,221)
Transfers in	357,080	5,258,267	206,796	1,172,665
Change in net assets	2,331,222	5,559,178	5,757,396	(184,997)
Beginning net assets	2,918,173	40,991,303	(2,839,223)	40,169,751
Prior period adjustment				1,006,549
Beginning net assets, as restated	<u>2,918,173</u>	<u>40,991,303</u>	<u>(2,839,223)</u>	<u>41,176,300</u>
Ending net assets	<u>\$ 5,249,395</u>	<u>\$ 46,550,481</u>	<u>\$ 2,918,173</u>	<u>\$ 40,991,303</u>
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by:				
Operating activities	\$ 7,109,167	\$ 195,869	\$ 7,983,752	\$ 661,553
Noncapital financing activities	201,088	2,251,764	776,459	631,555
Capital and related financing activities	(13,099,862)	(2,168,098)	25,469	(2,534,660)
Investing activities	991,364	879,917	382,389	562,071
Net increase (decrease)	(4,798,243)	1,159,452	9,168,069	(679,481)
Beginning cash and cash equivalents	24,411,344	16,911,360	15,243,275	17,590,841
Ending cash and cash equivalents	<u>\$ 19,613,101</u>	<u>\$ 18,070,812</u>	<u>\$ 24,411,344</u>	<u>\$ 16,911,360</u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

NOTE M -- RESTATEMENT

The District determined during 2006 that work performed under a contract with the California Department of Transportation that had been expensed in 2005 and prior years results in improvements to the District's water distribution system. As a result, the District capitalized these items during 2006. Revisions to net assets as of December 31, 2004 and revisions to the change in net assets for the year ended December 31, 2005 were as follows:

	<u>Net Assets</u>
December 31, 2004, as previously reported	\$ 57,158,647
Capitalize construction in progress expenditures incurred in 2004 and prior year	<u>1,006,549</u>
December 31, 2004, as restated	<u>\$ 58,165,196</u>
	<u>Change in Net Assets</u>
Change in net assets for the year ended December 31, 2005, as previously reported	\$ 4,492,952
Capitalize construction in progress expenditures incurred in 2005	<u>1,646,964</u>
Change in net assets for the year ended December 31, 2005, as restated	<u>\$ 6,139,916</u>

SUPPLEMENTAL INFORMATION

MERCED IRRIGATION DISTRICT

BALANCE SHEETS BY FUND

December 31, 2006

	<u>Electric Services</u>	<u>Water Utility</u>	<u>Hydroelectric</u>	<u>Parks</u>	<u>Drainage Improvement District #1</u>
ASSETS					
CAPITAL ASSETS, NET	\$ 69,347,927	\$ 30,330,908	\$ 27,919,087	\$ 3,809,621	\$ 903,458
OTHER NONCURRENT ASSETS					
Deferred relicense costs					
Debt issuance costs	5,005,778				
TOTAL OTHER NONCURRENT ASSETS	<u>5,005,778</u>				
CURRENT ASSETS					
Cash and cash equivalents	119,158	16,172,731	51,028	15,638	496,216
Accounts receivable, net	5,536,396	403,892	774,496	13,013	3,059
Due from other governmental agencies	16,774	752,349		2,145	
Accrued interest and taxes receivable	88,530	1,335,681	4,401	4,450	
Inventory	2,700,450	209,553			
Prepaid expenses and other current assets	411,153	420,715	96,276	33,922	12,958
Swap sale receivable	265,052				
Due from other funds	2,705,963	7,489,379			266,732
Restricted cash and cash equivalents	19,493,943	1,080,730	1,062,652	1,080,591	
Derivative financial instruments	(2,993,153)				
TOTAL CURRENT ASSETS	<u>28,344,266</u>	<u>27,865,030</u>	<u>1,988,853</u>	<u>1,149,759</u>	<u>778,965</u>
TOTAL ASSETS	<u><u>\$ 102,697,971</u></u>	<u><u>\$ 58,195,938</u></u>	<u><u>\$ 29,907,940</u></u>	<u><u>\$ 4,959,380</u></u>	<u><u>\$ 1,682,423</u></u>

San Joaquin River Agreement Fund	Merced Irrigation District Public Facilities Financing Corporation	Water Transfers	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Eliminating Entries	Totals
			\$ 13,055		\$ 127,415		\$ 132,451,471
	\$ 170,672			\$ 4,166,822			4,166,822
	170,672			93,754			5,270,204
				4,260,576			9,437,026
\$ 493,165			161,622	153,832	500		17,663,890
3,361						\$ (15,366)	6,718,851
344,500							1,115,768
	132			423			1,433,617
115,116					51,575		2,910,003
							1,141,715
							265,052
13,361,868	427,086	\$ 816,458			72,000	(25,139,486)	
	162,564			4,053,486			26,933,966
							(2,993,153)
<u>14,318,010</u>	<u>589,782</u>	<u>816,458</u>	<u>161,622</u>	<u>4,207,741</u>	<u>124,075</u>	<u>(25,154,852)</u>	<u>55,189,709</u>
<u>\$ 14,318,010</u>	<u>\$ 760,454</u>	<u>\$ 816,458</u>	<u>\$ 174,677</u>	<u>\$ 8,468,317</u>	<u>\$ 251,490</u>	<u>\$ (25,154,852)</u>	<u>\$ 197,078,206</u>

MERCED IRRIGATION DISTRICT

BALANCE SHEETS BY FUND (Continued)

December 31, 2006

	<u>Electric Services</u>	<u>Water Utility</u>	<u>Hydroelectric</u>	<u>Parks</u>	<u>Drainage Improvement District #1</u>
LIABILITIES AND NET ASSETS					
LONG-TERM LIABILITIES					
Long-term debt	\$ 90,027,147	\$ 329,807	\$ 9,535,000		
Accrued compensated absences	169,818	635,598	67,372	\$ 116,206	\$ 3,542
Accrued post-employment benefits		1,336,878			
TOTAL LONG-TERM LIABILITIES	<u>90,196,965</u>	<u>2,302,283</u>	<u>9,602,372</u>	<u>116,206</u>	<u>3,542</u>
OTHER LIABILITIES					
Deferred public purpose program revenues	1,997,019				
Deferred power cost reductions	2,100,000				
Deposits	197,263	711,924		3,304	21,559
TOTAL OTHER LIABILITIES	<u>4,294,282</u>	<u>711,924</u>		<u>3,304</u>	<u>21,559</u>
CURRENT LIABILITIES					
Accounts payable	719,287	305,034	160,855	12,884	15,521
Accrued permission fees	719,585				
Accrued power purchase expense	2,230,528				
Other accrued expenses	462,708	297,161	127,566	415	
Deferred revenue		420,822			
Accrued interest payable	1,168,740	7,812	168,047		
Due to other funds		17,396,097	2,795,340	3,679,529	72,000
Deferred credit - unrealized (loss) gain on swap contracts	(2,993,153)				
Current portion of long-term debt	649,634	67,014	1,220,000		
TOTAL CURRENT LIABILITIES	<u>2,957,329</u>	<u>18,493,940</u>	<u>4,471,808</u>	<u>3,692,828</u>	<u>87,521</u>
TOTAL LIABILITIES	<u>97,448,576</u>	<u>21,508,147</u>	<u>14,074,180</u>	<u>3,812,338</u>	<u>112,622</u>
NET ASSETS					
Invested in capital assets, net of related debt	(9,195,681)	29,934,087	17,164,087	3,809,621	903,458
Restricted	7,360,770	1,080,730	1,062,652	1,080,591	
Unrestricted	7,084,306	5,672,974	(2,392,979)	(3,743,170)	666,343
TOTAL NET ASSETS	<u>5,249,395</u>	<u>36,687,791</u>	<u>15,833,760</u>	<u>1,147,042</u>	<u>1,569,801</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 102,697,971</u>	<u>\$ 58,195,938</u>	<u>\$ 29,907,940</u>	<u>\$ 4,959,380</u>	<u>\$ 1,682,423</u>

San Joaquin River Agreement Fund	Merced Irrigation District Public Facilities Financing Corporation	Water Transfers	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Eliminating Entries	Totals
\$ 47,301	\$ 5,308,029			\$ 5,043,170	\$ 73,429		\$ 110,243,153
<u>47,301</u>	<u>5,308,029</u>			<u>5,043,170</u>	<u>73,429</u>		<u>1,113,266</u>
							<u>1,336,878</u>
							<u>112,693,297</u>
							1,997,019
							2,100,000
							<u>934,050</u>
							5,031,069
30,443			\$ 5,717	30,515	38,424	\$ (15,366)	1,303,314
							719,585
325	10		1		(46)		2,230,528
	21,732			83,337			888,140
			33,351	981,158	182,011	(25,139,486)	420,822
							1,449,668
							(2,993,153)
	<u>760,000</u>						<u>2,696,648</u>
<u>30,768</u>	<u>781,742</u>		<u>39,069</u>	<u>1,095,010</u>	<u>220,389</u>	<u>(25,154,852)</u>	<u>6,715,552</u>
<u>78,069</u>	<u>6,089,771</u>		<u>39,069</u>	<u>6,138,180</u>	<u>293,818</u>	<u>(25,154,852)</u>	<u>124,439,918</u>
	(6,068,029)		13,055		127,415		36,688,013
	162,564			4,053,486			14,800,793
<u>14,239,941</u>	<u>576,148</u>	<u>\$ 816,458</u>	<u>122,553</u>	<u>(1,723,349)</u>	<u>(169,743)</u>		<u>21,149,482</u>
<u>14,239,941</u>	<u>(5,329,317)</u>	<u>816,458</u>	<u>135,608</u>	<u>2,330,137</u>	<u>(42,328)</u>		<u>72,638,288</u>
<u>\$ 14,318,010</u>	<u>\$ 760,454</u>	<u>\$ 816,458</u>	<u>\$ 174,677</u>	<u>\$ 8,468,317</u>	<u>\$ 251,490</u>	<u>\$ (25,154,852)</u>	<u>\$ 197,078,206</u>

MERCED IRRIGATION DISTRICT

SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS BY FUND

For the year ended December 31, 2006

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
OPERATING REVENUES					
Electric sales and services	\$ 40,494,819				
Water sales and services		\$ 8,192,876			
Hydroelectric sales and services			\$ 5,424,375		
Water transfers					
Recreation fees				\$ 1,714,032	
Rental income					
Administrative services					
Storm drainage fees					\$ 99,725
TOTAL OPERATING REVENUES	40,494,819	8,192,876	5,424,375	1,714,032	99,725
OPERATING EXPENSES					
Purchase of power	21,510,455				
Water distribution		11,538,176			
Electric transmission and distribution	11,413,442		3,111,755		
Recreation				1,605,656	
Storm drainage					36,671
Administrative and general	1,688	1,964,520	1,685		32,304
Depreciation and amortization	2,332,090	1,123,209	583,287	386,123	22,688
TOTAL OPERATING EXPENSES	35,257,675	14,625,905	3,696,727	1,991,779	91,663
NET INCOME (LOSS) FROM OPERATIONS	5,237,144	(6,433,029)	1,727,648	(277,747)	8,062
NON-OPERATING REVENUE (EXPENSES)					
Property taxes		1,773,709			263,496
Interest income	985,737	781,867	21,801	48,074	16,621
Other non-operating income	201,088	446,154	47,404	37,534	7,533
Gain on disposal of capital assets	5,927	298,896	14,683	4,925	
Interest expense	(4,695,119)	(40,319)	(411,813)		
Transfers in	357,080	4,857,217			3,757
Transfers out	(2,150,636)	(820,243)	(103,074)	(183,600)	(27,109)
TOTAL NON-OPERATING REVENUE (EXPENSES)	(5,295,923)	7,297,281	(430,999)	(93,067)	264,298
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(58,779)	864,252	1,296,649	(370,814)	272,360
CAPITAL CONTRIBUTIONS	2,390,001	2,983,888			
CHANGE IN NET ASSETS	2,331,222	3,848,140	1,296,649	(370,814)	272,360
Net assets at beginning of year	2,918,173	30,186,138	14,537,111	1,517,856	1,297,441
Prior period adjustments		2,653,513			
Net assets at beginning of year, as restated	<u>2,918,173</u>	<u>32,839,651</u>	<u>14,537,111</u>	<u>1,517,856</u>	<u>1,297,441</u>
Net assets at end of year	<u>\$ 5,249,395</u>	<u>\$ 36,687,791</u>	<u>\$ 15,833,760</u>	<u>\$ 1,147,042</u>	<u>\$ 1,569,801</u>

San Joaquin River Agreement Fund	Merced Irrigation District Public Facilities Financing Corporation	Water Transfers	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Eliminating Entries	Totals
							\$ 40,494,819
							8,192,876
\$ 2,802,443							5,424,375
	\$ 1,089,843						2,802,443
					\$ 1,993,578	\$ (1,089,843) (1,993,578)	1,714,032
							99,725
<u>2,802,443</u>	<u>1,089,843</u>				<u>1,993,578</u>	<u>(3,083,421)</u>	<u>58,728,270</u>
							21,510,455
1,247,663	1,652					(1,089,843)	11,697,648
						(23,000)	14,502,197
							1,605,656
							36,671
					1,773,652	(1,993,578)	1,780,271
	16,255			\$ 62,503	33,789		4,559,944
<u>1,247,663</u>	<u>17,907</u>			<u>62,503</u>	<u>1,807,441</u>	<u>(3,106,421)</u>	<u>55,692,842</u>
1,554,780	1,071,936			(62,503)	186,137	23,000	3,035,428
							2,037,205
22,327	21,144		\$ 82,561	244,581	650		2,225,363
240			9		28,281	(23,000)	745,243
	(351,983)			90,851			324,431
394,217	11,155	\$ 24,086			194,499		(5,408,383)
(99,284)	(17,253)		(1,002,897)	(1,028,348)	(409,567)		5,842,011
<u>317,500</u>	<u>(336,937)</u>	<u>24,086</u>	<u>(920,327)</u>	<u>(692,916)</u>	<u>(186,137)</u>	<u>(23,000)</u>	<u>(76,141)</u>
1,872,280	734,999	24,086	(920,327)	(755,419)			2,959,287
							5,373,889
1,872,280	734,999	24,086	(920,327)	(755,419)			8,333,176
12,367,661	(6,064,316)	792,372	1,055,935	3,085,556	(42,328)		61,651,599
							2,653,513
<u>12,367,661</u>	<u>(6,064,316)</u>	<u>792,372</u>	<u>1,055,935</u>	<u>3,085,556</u>	<u>(42,328)</u>		<u>64,305,112</u>
<u>\$ 14,239,941</u>	<u>\$ (5,329,317)</u>	<u>\$ 816,458</u>	<u>\$ 135,608</u>	<u>\$ 2,330,137</u>	<u>\$ (42,328)</u>	<u>\$</u>	<u>\$ 72,638,288</u>

MERCED IRRIGATION DISTRICT
SCHEDULE OF CASH FLOWS BY FUND

December 31, 2006

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers	\$ 40,120,540	\$ 8,065,337	\$ 5,486,662	\$1,729,610	\$ 96,666
Cash paid to suppliers for goods and services	(27,918,672)	(7,280,849)	(1,976,384)	(791,386)	(4,051)
Cash paid to employees for services	(2,370,317)	(4,813,703)	(921,994)	(808,308)	(12,313)
Cash receipts/payments to other funds	(2,722,384)	3,997,076	(212,090)	(125,458)	(303,117)
NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES	7,109,167	(32,139)	2,376,194	4,458	(222,815)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Non-operating interfund transfers		892,629			
Property taxes received		921,896			356,755
Relicense costs incurred					
Interest payments on long-term debt					
Other income/expenses	201,088	436,990	47,404	35,389	7,533
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	201,088	2,251,515	47,404	35,389	364,288
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(7,859,072)	(3,919,157)	(775,897)	(51,566)	(14,998)
Proceeds from the sale of equipment	8,385	350,205	17,822	4,925	
Grants received for capital assets	75,103	2,669,672			
Principal payments on long-term debt	(1,470,354)	(127,912)	(1,175,000)		
Issuance costs paid	(27,787)				
Interest payments on long-term debt	(3,826,137)	(41,418)	(436,500)		
NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(13,099,862)	(1,068,610)	(2,369,575)	(46,641)	(14,998)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on investments	991,364	753,977	20,472	46,873	16,621
NET CASH PROVIDED BY INVESTING ACTIVITIES	991,364	753,977	20,472	46,873	16,621
INCREASE (DECREASE) IN CASH	(4,798,243)	1,904,743	74,495	40,079	143,096
Cash and cash equivalents at beginning of year	24,411,344	15,348,718	1,039,185	1,056,150	353,120
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 19,613,101</u>	<u>\$17,253,461</u>	<u>\$ 1,113,680</u>	<u>\$1,096,229</u>	<u>\$ 496,216</u>

San Joaquin River Agreement Fund	Merced Irrigation District Public Facilities Financing Corporation	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Eliminating Entries	Totals
\$ 2,802,497	\$ 1,089,843			\$ 1,993,578	\$ (3,068,055)	\$ 58,316,678
(913,020)	(1,646)	\$ 5,717		(868,139)	1,097,477	(38,650,953)
(376,043)				(906,105)		(10,208,783)
(1,513,674)	59,370	(925,036)		(248,265)	1,993,578	
(240)	1,147,567	(919,319)		(28,931)	23,000	9,456,942
			\$ (892,629)			-
			(660,923)			1,278,651
			(155,000)			(660,923)
240		9		28,281	(23,000)	(155,000)
						733,934
240		9	(1,708,552)	28,281	(23,000)	1,196,662
		(80,690)				(12,701,380)
						381,337
	(664,901)					2,744,775
						(3,438,167)
	(353,897)					(27,787)
						(4,657,952)
	(1,018,798)	(80,690)				(17,699,174)
22,327	21,052	82,561	244,158	650		2,200,055
22,327	21,052	82,561	244,158	650		2,200,055
22,327	149,821	(917,439)	(1,464,394)			(4,845,515)
470,838	12,743	1,079,061	5,671,712	500		49,443,371
\$ 493,165	\$ 162,564	\$ 161,622	\$ 4,207,318	\$ 500	\$ -	\$ 44,597,856

MERCED IRRIGATION DISTRICT

SCHEDULE OF CASH FLOWS BY FUND (Continued)

December 31, 2006

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
RECONCILIATION OF NET INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES:					
Net income (loss) from operations	\$ 5,237,144	\$ (6,433,029)	\$ 1,727,648	\$ (277,747)	\$ 8,062
Adjustments to reconcile net income (loss) from operations to net cash provided (used) for operating activities:					
Depreciation and amortization	2,332,090	1,123,209	583,287	386,123	22,688
Transfers to/from other funds	(1,793,556)	2,902,773	(103,074)	(183,600)	(23,352)
Changes in operating assets and liabilities:					
Accounts receivable	(295,401)	(162,886)	62,287	13,354	(3,059)
Due from other governmental agencies	(16,774)				
Inventory	13,864	(171)	1,885	2,361	
Prepaid expenses and other current assets	(329,233)	(308,157)	21,080	(7,797)	1,459
Swap sale receivable	988,477				
Accounts payable	368,505	(162,450)	59,380	614	15,329
Accrued permission fees	80,189				
Accrued power purchase expense	(860,983)				
Other accrued expenses	227,543	(33,147)	124,907	(2)	
Deferred revenue		5,925			
Deferred power cost reduction	2,100,000				
Due to/from other funds	(927,140)	3,058,823	(107,331)	58,142	(247,461)
Deposits	4,711	29,422		2,224	
Deferred public purpose program revenues	(66,815)				
Accrued postemployment benefits		(81,243)			
Accrued compensated absences	46,546	28,792	6,125	10,786	3,519
	<u>\$ 7,109,167</u>	<u>\$ (32,139)</u>	<u>\$ 2,376,194</u>	<u>\$ 4,458</u>	<u>\$ (222,815)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Receipt of contributed electric system assets from developers	\$ 2,314,898				
Change in derivative financial instruments	\$ (14,477,494)				

San Joaquin River Agreement Fund	Merced Irrigation District Public Facilities Financing Corporation	Water Utility Facility Improvement Fund	Federal Energy Regulatory Commission Fund	General Operations	Eliminating Entries	Totals
\$ 1,554,780	\$ 1,071,936		\$ (62,503)	\$ 186,137	\$ 23,000	\$ 3,035,428
294,933	16,255 (6,098)	\$ (897,044)	62,503	33,789 (215,068)		4,559,944 (24,086)
7,179 (7,125)					15,366	(363,160) (23,899)
(481)				5,668		17,939 (617,461)
(48,227)		5,717		(7,737)	(15,366)	988,477 215,765
325	6			13		80,189 (860,983)
(1,808,607)	65,468	(27,992)		(39,816)		319,645 5,925
						2,100,000
						24,086
						36,357
						(66,815)
						(81,243)
6,983				8,083		110,834
<u>\$ (240)</u>	<u>\$ 1,147,567</u>	<u>\$ (919,319)</u>	<u>-</u>	<u>\$ (28,931)</u>	<u>\$ 23,000</u>	<u>\$ 9,456,942</u>
						\$ 2,314,898
						\$(14,477,494)

MERCED IRRIGATION DISTRICT

2006 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP'S AND BONDS

ELECTRIC SERVICES

Net Income	\$ 2,331,222
Add Back:	
Depreciation and amortization expense	2,332,090
Bond interest expense	4,663,682
Inter-fund transfers	1,815,000
Less:	
Capital contribution revenue	(2,390,001)
Warrant principal payments	(820,000)
Warrant interest payments	(11,788)
Inter-fund interest expense	<u>(68,016)</u>
Reconciled net revenue	<u>\$ 7,852,189</u>
2006 debt service related to outstanding COP's and Bonds	\$ 4,139,515
Debt service coverage	190%

MERCED IRRIGATION DISTRICT

2006 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP'S

WATER OPERATIONS

Net Income	\$5,559,178
Add Back:	
Depreciation and amortization expense	1,139,464
Bond interest expense	351,983
Less:	
Inter-fund transfers	(1,815,000)
Capital contribution revenue	(2,983,888)
Inter-fund Interest expense	<u>(157,951)</u>
Reconciled net revenue	<u>\$2,093,786</u>
2006 debt service related to outstanding COP's	\$1,018,799
Debt service coverage	206%