

MERCED IRRIGATION DISTRICT
AUDITED FINANCIAL STATEMENTS
December 31, 2007

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AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Merced Irrigation District
Merced, California

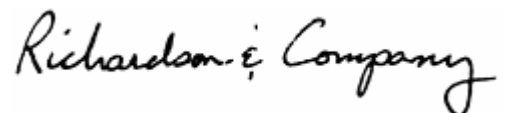
We have audited the accompanying basic financial statements of the Merced Irrigation District (the District) as of December 31, 2007 and 2006 for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility 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, 2007 and 2006 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.

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.



April 30, 2008



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2007

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, 2007. The District's 2006 and 2005 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 8.

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 90,000 acres within its 164,000 acre boundary. In addition, the District serves approximately 12,000 acres of agricultural lands outside its boundary, but within its 420,000 acre sphere of influence (SOI), which encompasses all lands within Merced Groundwater basin located in the eastern part of Merced County, in addition to lands adjacent to its boundary north of the Merced River. The District distributes water through 800 miles of earthen and concrete lined canals, and pipelines. The District also owns and operates more than 220 wells within its boundary for use in dry years. In 2007, the District delivered 303,794 acre feet of irrigation water to approximately 2,100 growers.

MERCED IRRIGATION DISTRICT

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 2007, the various Parks locations had a combined 724,068 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, recreation, and the environment.

The District is authorized to act as an electric utility under the California Water Code. The District has owned and operated hydroelectric generating facilities on the Merced River since 1927. In 1995, the District exercised its authority to sell power to retail electric customers. The District offers its customers full requirements electric service including power supply and delivery to the customer. Since 1996, the District has connected over 7,500 customers to the District's electric system, hooking up an average of 60 meters per month in 2007. The District's electric customers consumed 91 megawatts of peak electricity demand at the height of the 2007 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 2007, there were approximately 14,062 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.

MERCED IRRIGATION DISTRICT

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 \$9.1 million in 2007, excluding derivative financial instruments which increased by \$1.9 million. Total liabilities increased by \$3.0 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 \$6.1 million.
- Operating revenue of \$68.9 million and operating expense of \$66.8 million resulted in net income from operations of \$2.1 million. Net non-operating revenue of \$0.1 million is the result of total non-operating revenue of \$5.4 million offset by interest expense of \$5.3 million. The District also received capital contributions totaling \$3.8 million. The effect of these activities resulted in a favorable change in net assets of \$6.1 million.
- The District had positive cash flow from operations of \$6.5 million in 2007. Cash flow from non-operations including tax receipts and miscellaneous revenue contributed an additional \$2.3 million. The District spent \$10.3 million on the construction of capital assets and \$7.8 million on principal and interest payments. For 2007, the District experienced an overall decrease of \$4.5 million in its cash position, and an ending cash balance of \$40.1 million.

MERCED IRRIGATION DISTRICT

Financial Analysis of the District

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

CONDENSED BALANCE SHEET

	<u>2007</u>	<u>2006</u>	<u>2005</u>
ASSETS			
Capital assets, net	\$ 139,614,345	\$ 132,451,471	\$ 121,639,568
Other non-current assets	10,041,495	9,437,026	8,889,087
Current assets	58,394,422	55,189,709	73,405,227
Total assets	<u>\$ 208,050,262</u>	<u>\$ 197,078,206</u>	<u>\$ 203,933,882</u>
LIABILITIES			
Long-term liabilities	\$ 110,115,887	\$ 112,693,297	\$ 115,117,169
Other liabilities	4,649,887	4,923,528	2,961,527
Current liabilities	14,534,622	6,823,093	21,550,074
Total liabilities	<u>\$ 129,300,396</u>	<u>\$ 124,439,918</u>	<u>\$ 139,628,770</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 37,895,293	\$ 36,688,013	\$ 27,378,309
Restricted	14,334,426	14,800,793	15,483,208
Unrestricted	26,520,147	21,149,482	21,443,595
Total net assets	<u>\$ 78,749,866</u>	<u>\$ 72,638,288</u>	<u>\$ 64,305,112</u>
Total liabilities and net assets	<u>\$ 208,050,262</u>	<u>\$ 197,078,206</u>	<u>\$ 203,933,882</u>

CONDENSED ASSETS DETAIL

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Distribution system, net	\$ 75,283,982	\$ 69,992,658	\$ 61,727,515
Land and easements	13,144,380	13,138,738	13,138,738
Structures and improvements, net	29,559,510	29,240,415	29,234,829
Equipment, net	4,908,499	4,619,405	4,618,164
Intangible assets, net	2,055,044	2,181,074	2,344,022
Construction in progress	14,662,930	13,279,181	10,576,300
	<u>\$ 139,614,345</u>	<u>\$ 132,451,471</u>	<u>\$ 121,639,568</u>

MERCED IRRIGATION DISTRICT

Significant Capital Asset Activity – Capital assets increased by \$7.2 million in 2007 and by \$10.8 million in 2006 due to capital project spending. The change in 2007 came from \$3.8 million in cash and non cash contributions and \$3.4 million in COP construction funding and cash reserves. For 2006, the increase comprised of \$5.4 million in cash and non cash capital contributions and \$5.4 million in COP construction funding and cash reserves. The District continued to develop and improve its distribution system in 2007; the entire distribution system asset base including construction in progress increased by \$6.7 million in 2007 compared to \$11.0 million in 2006.

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

Significant Long-term Debt Activity – At December 31, 2007 the District had long-term debt outstanding of \$107.2 million as compared to \$110.2 million in 2006 and \$112.7 million in 2005. The current amount is comprised of \$106.6 million of revenue bonds, certificates of participation, and warrants, and \$0.6 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 \$1.2 million in 2007. This corresponds with the increase in the District’s capital assets in 2007. The balance of net assets is comprised of \$14.3 million of restricted net assets which are subject to external restrictions on their use, and \$26.5 million of unrestricted net assets. The District’s assets exceeded liabilities by \$78.7 million. The District’s net assets invested in capital assets for 2006 increased by \$9.3 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

	2007	2006	2005
Operating revenue	\$ 68,946,462	\$ 58,700,653	\$ 53,209,910
Operating expense	66,795,790	55,609,061	47,627,927
Net income from operations	2,150,672	3,091,592	5,581,983
Non-operating revenue (expense)	141,558	(132,305)	(2,440,713)
Net income before capital contributions	2,292,230	2,959,287	3,141,270
Capital contributions	3,819,348	5,373,889	2,998,646
Change in net assets	6,111,578	8,333,176	6,139,916
Net assets, beginning of year	72,638,288	64,305,112	58,165,196
Net assets, end of year	\$ 78,749,866	\$ 72,638,288	\$ 64,305,112

MERCED IRRIGATION DISTRICT

Net income from operations of \$2.1 million for 2007 decreased from \$3.1 million in 2006. The decrease was due to an increase in power supply costs and water distribution costs which were not completely offset by the increase in electric and water sales. There was a decrease of \$2.5 million in net income from operations for 2006 from \$5.6 million in 2005 due to an increase in power supply costs. In 2007, net non-operating revenue of \$0.1 million is the result of non-operating revenue of \$5.4 million offset by interest expense of \$5.3 million. Capital contribution revenue of \$3.8 million is comprised of non-cash developer contributions and third-party cash proceeds used for capital projects. The decrease in capital contribution revenue of \$1.6 million in 2007 is due to decreased developer-constructed electric infrastructure compared to 2006.

Economic Factors and Rates

In 2007, the District continued to experience significant change as well as rapid growth. To maintain pace with increasing expenses due to rising inflation, and continued imposed regulatory fees, the District raised water rates \$2.00 per acre foot through the imposition of a State Recovery Fee Charge done under a Proposition 218 election. Also, certain parks and recreation fees were slightly increased. The District added approximately 700 new industrial, commercial, municipal, agricultural, and residential electric services accounts. Finally, 262 parcels comprising of approximately 102 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 Andre Urquidez, Director of Finance, P.O. Box 2288, Merced, CA 95344-0288 or please call (209) 722-5761.

BASIC FINANCIAL STATEMENTS

MERCED IRRIGATION DISTRICT

BALANCE SHEETS

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CAPITAL ASSETS, NET	\$ 139,614,345	\$ 132,451,471
OTHER NONCURRENT ASSETS		
Deferred relicense costs	5,156,638	4,166,822
Debt issuance costs	4,884,857	5,270,204
TOTAL OTHER NONCURRENT ASSETS	<u>10,041,495</u>	<u>9,437,026</u>
CURRENT ASSETS		
Cash and cash equivalents	21,991,821	17,663,890
Accounts receivable, net	7,495,497	6,718,963
Due from other governmental agencies	5,400,939	1,115,768
Accrued interest and taxes receivable	1,362,612	1,433,505
Inventory	4,323,258	2,910,003
Prepaid expenses and other current assets	878,387	1,141,715
Swap sale receivable		265,052
Restricted cash and cash equivalents	18,066,936	26,933,966
Derivative financial instruments	(1,125,028)	(2,993,153)
TOTAL CURRENT ASSETS	<u>58,394,422</u>	<u>55,189,709</u>
TOTAL ASSETS	<u>\$ 208,050,262</u>	<u>\$ 197,078,206</u>

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
LONG-TERM LIABILITIES		
Long-term debt	\$ 107,194,350	\$ 110,243,153
Accrued compensated absences	1,234,915	1,113,266
Accrued post-employment benefits	<u>1,686,622</u>	<u>1,336,878</u>
TOTAL LONG-TERM LIABILITIES	110,115,887	112,693,297
OTHER LIABILITIES		
Deferred public purpose program revenues	2,221,638	1,997,019
Deferred power cost reductions	1,500,000	2,100,000
Deposits	<u>928,249</u>	<u>826,509</u>
TOTAL OTHER LIABILITIES	4,649,887	4,923,528
CURRENT LIABILITIES		
Accounts payable	1,845,693	1,304,593
Accrued permission fees	834,290	719,585
Accrued power purchase expense	2,707,999	2,230,528
Other accrued expenses	779,447	886,861
Deferred revenue	4,788,022	528,363
Accrued interest payable	1,425,402	1,449,668
Deferred credit - unrealized (loss) gain on swap contracts	(1,125,028)	(2,993,153)
Current portion of long-term debt	<u>3,278,797</u>	<u>2,696,648</u>
TOTAL CURRENT LIABILITIES	<u>14,534,622</u>	<u>6,823,093</u>
TOTAL LIABILITIES	129,300,396	124,439,918
NET ASSETS		
Invested in capital assets, net of related debt	37,895,293	36,688,013
Restricted	14,334,426	14,800,793
Unrestricted	<u>26,520,147</u>	<u>21,149,482</u>
TOTAL NET ASSETS	<u>78,749,866</u>	<u>72,638,288</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 208,050,262</u>	<u>\$ 197,078,206</u>

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

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MERCED IRRIGATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

For the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Electric sales and services	\$ 46,034,044	\$ 40,444,809
Water sales and services	9,658,878	8,215,269
Hydroelectric sales and services	6,179,373	5,424,375
Water transfers	5,185,240	2,802,443
Recreation fees	1,821,687	1,714,032
Storm drainage fees	67,240	99,725
TOTAL OPERATING REVENUES	<u>68,946,462</u>	<u>58,700,653</u>
OPERATING EXPENSES		
Purchase of power	30,914,133	24,665,258
Water distribution	13,845,451	11,613,867
Electric transmission and distribution	13,287,593	11,347,394
Recreation	1,750,324	1,605,656
Storm drainage	57,705	43,290
Administrative and general	1,980,938	1,773,652
Depreciation and amortization	4,959,646	4,559,944
TOTAL OPERATING EXPENSES	<u>66,795,790</u>	<u>55,609,061</u>
NET INCOME FROM OPERATIONS	2,150,672	3,091,592
NON-OPERATING REVENUE (EXPENSES)		
Property taxes	2,524,649	2,037,205
Interest income	2,087,083	2,170,956
Other non-operating income	747,851	735,666
Gain on disposal of capital assets	111,695	324,431
Interest expense	(5,329,720)	(5,400,563)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>141,558</u>	<u>(132,305)</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	2,292,230	2,959,287
CAPITAL CONTRIBUTIONS	<u>3,819,348</u>	<u>5,373,889</u>
TOTAL CAPITAL CONTRIBUTIONS	<u>3,819,348</u>	<u>5,373,889</u>
CHANGE IN NET ASSETS	6,111,578	8,333,176
Net assets at beginning of year	<u>72,638,288</u>	<u>64,305,112</u>
NET ASSETS AT END OF YEAR	<u>\$ 78,749,866</u>	<u>\$ 72,638,288</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 68,370,067	\$ 58,316,678
Cash paid to suppliers for goods and services	(51,181,623)	(38,650,953)
Cash paid to employees for services	<u>(10,690,224)</u>	<u>(10,208,783)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,498,220	9,456,942
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	2,567,187	1,278,651
Relicense costs incurred	(804,573)	(660,923)
Interest payments on long term debt	(200,004)	(155,000)
Other income/expenses	<u>749,996</u>	<u>733,934</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,312,606	1,196,662
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(10,301,154)	(12,701,380)
Proceeds from sale of equipment	138,836	381,337
Reimbursements received for capital assets	2,436,311	2,744,775
Principal payments on long-term debt	(2,704,103)	(3,438,167)
Issuance costs paid		(27,787)
Interest payments on long-term debt	<u>(5,053,692)</u>	<u>(4,657,952)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(15,483,802)	(17,699,174)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>2,133,877</u>	<u>2,200,055</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,133,877	2,200,055
DECREASE IN CASH	(4,539,099)	(4,845,515)
Cash and cash equivalents at beginning of year	<u>44,597,856</u>	<u>49,443,371</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 40,058,757</u>	<u>\$ 44,597,856</u>
 Cash and cash equivalents consist of the following:		
Unrestricted	\$ 21,991,821	\$ 17,663,890
Restricted	<u>18,066,936</u>	<u>26,933,966</u>
	<u>\$ 40,058,757</u>	<u>\$ 44,597,856</u>

(Continued)

MERCED IRRIGATION DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 2,150,672	\$ 3,035,428
Adjustments to reconcile net income from operations to net cash used for operating activities:		
Depreciation and amortization	4,959,647	4,559,944
Changes in operating assets and liabilities:		
Accounts receivable	(794,973)	(363,160)
Due from other governmental agencies	(4,367,440)	(23,899)
Inventory	(1,413,255)	17,939
Prepaid expenses and other current assets	263,328	(617,461)
Swap sale receivable	265,052	988,477
Accounts payable	543,052	215,765
Accrued permission fees	114,705	80,189
Accrued power purchase expense	477,471	(860,983)
Other accrued expenses	(157,450)	319,645
Deferred revenue	4,259,659	5,925
Deferred power cost reductions	(600,000)	2,100,000
Deposits	101,740	36,357
Deferred public purpose program revenues	224,619	(66,815)
Accrued postemployment benefits	349,744	(81,243)
Accrued compensated absences	121,649	110,834
	<u>\$ 6,498,220</u>	<u>\$ 9,456,942</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Receipt of contributed electric system assets from developers	\$ 1,463,160	\$ 2,314,898
Change in derivative financial instruments	\$ 1,868,125	\$ (14,477,494)

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

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MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2007

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 (Continued)

December 31, 2007

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. Electrical infrastructures that are constructed by private developers are contributed to the District, which then become the responsibility of the District to maintain. These infrastructures are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized and included as a part of the electric transmission and distribution system.

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

Reclassifications: Certain reclassifications have been made to 2006 balances to agree to the 2007 presentation. These reclassifications had no effect on previously reported change in net assets.

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.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

A portion of the District’s annual power supply requirement is purchased from the Western Area Power Administration (WAPA). In 2006, due to increased hydroelectric production by WAPA, the District’s allotment was significantly higher than anticipated. The comparatively low cost of this power offset higher priced power, causing a reduction of the District’s expected overall power supply cost in 2006. This reduction in cost resulted in excess net income that is available to offset the projected power supply cost increase in 2007. The power supply cost reduction was deferred in accordance with SFAS 71 for the benefit of future customer rate stabilization and is recorded as deferred power cost reductions on the Balance Sheet. At December 31, 2007 and 2006, the deferred power cost reductions were \$1,500,000 and \$2,100,000, respectively.

A portion of the District water sales revenue is derived from water transfers to state and/or federal agencies for environmental purposes based upon the District’s ability to make such water resources available to meet flow objectives in the Merced River, San Joaquin River or the Delta. In 2007, the District was able to negotiate several transfer agreements which resulted in excess net income available to offset the projected low water sales and increasing costs in 2008. A portion of the excess revenue, \$4,600,000, was deferred in accordance with SFAS 71 for the benefit of future customer rate stabilization and is recorded deferred water revenue on the Balance Sheet at December 31, 2007.

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

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

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

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 \$540,620 at December 31, 2007 and \$191,028 at December 31, 2006.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

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

Due from Other Governmental Agencies: 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 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 in the past due to the State of California's Education Revenue Augmentation Fund (ERAF). The District had a reduction of approximately \$550,000 in 2006. No reductions were made in 2007.

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.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE B – CASH AND INVESTMENTS

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

Cash and cash equivalents	\$ 21,991,821	\$ 17,663,890
Restricted cash and cash equivalents	<u>18,066,936</u>	<u>26,933,966</u>
Total cash and investments	<u>\$ 40,058,757</u>	<u>\$ 44,597,856</u>

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

Cash on hand	\$ 3,120	\$ 2,920
Deposits with financial institutions	<u>15,109,377</u>	<u>11,140,950</u>
Total cash and deposits	<u>15,112,497</u>	<u>11,143,870</u>
Money market mutual funds	13,983,172	21,808,443
Guaranteed investment contract	2,855,164	3,953,486
Investments in LAIF	<u>8,107,924</u>	<u>7,692,057</u>
Total investments	<u>24,946,260</u>	<u>33,453,986</u>
Total cash and investments	<u>\$ 40,058,757</u>	<u>\$ 44,597,856</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, 2007, 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.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE B – CASH AND INVESTMENTS (Continued)

As of December 31, 2007, the District invested \$10,202,626 in a single money market fund, representing 41% of the District’s investment profits. The District complied with all other provisions of California Government Code (or the District’s investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

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

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

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

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

	Remaining Maturity (in Months)		
	Total	12 Months or less	13 to 24 Months
Local Agency Investment Funds Held by bond trustee:			
Money Market Mutual Funds	\$ 6,979,322	\$ 6,979,322	
Guaranteed Investment Contract	13,983,172	13,983,172	\$ 2,855,164
Local Agency Investment Funds	2,855,164	1,128,602	
	<u>1,128,602</u>	<u>1,128,602</u>	
	<u>\$ 24,946,260</u>	<u>\$ 22,091,096</u>	<u>\$ 2,855,164</u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

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.

	Minimum Legal Rating	Total	AAA/Aaa	AA/A-1+	Unrated
Local Agency Investment Funds	Unrated	\$ 6,979,322			\$ 6,979,322
Held by bond trustee:					
Money Market Mutual Funds	AAA/Aaa	13,983,172	\$ 13,983,172		
Guaranteed Investment Contract	AA/A-1+	2,855,164		\$ 2,855,164	
Local Agency Investment Funds	Unrated	1,128,602			1,128,602
		<u>\$ 24,946,260</u>	<u>\$ 13,983,172</u>	<u>\$ 2,855,164</u>	<u>\$ 8,107,924</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, 2007, the District invested \$2,855,164 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, 2007, the carrying amount of the District’s deposits was \$15,109,377 and the balance in financial institutions was \$18,106,024. Of the balance in financial institutions, \$261,090 was covered by federal depository insurance and \$17,844,934 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, 2007, District investments in guaranteed investment contracts reported at \$2,855,164 were held by the same broker-dealer (counterparty) that was used by the District to buy the securities.

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 \$63,353,384,139 managed by the State Treasurer. Of that amount, 90.18% is invested in non-derivative financial products and 9.82% 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

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE B – CASH AND INVESTMENTS (Continued)

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, 2007 and 2006 are as follows:

	Balance January 1, 2007	Additions	Disposals	Transfers and Adjustments	Balance December 31, 2007
Capital assets, not being depreciated:					
Land	\$ 13,138,738			\$ 5,642	\$ 13,144,380
Construction in progress	13,279,181	\$ 10,045,256		(8,661,507)	14,662,930
Total capital assets, not being depreciated	<u>26,417,919</u>	<u>10,045,256</u>		<u>(8,655,865)</u>	<u>27,807,310</u>
Capital assets, being depreciated:					
Landscaping	5,671,728			774,976	6,446,704
Buildings and structures	49,671,126	23,531		622,660	50,317,317
Water distribution system	13,884,724	642,463		926,625	15,453,812
Electric transmission and distribution system	70,537,061			6,244,436	76,781,497
Machinery and equipment	9,338,901	46,465		26,226	9,411,592
Vehicles	6,976,850	979,095	\$ (104,473)		7,851,472
Intangible plant	8,343,998	27,504		60,942	8,432,444
Total capital assets being depreciated	<u>164,424,388</u>	<u>1,719,058</u>	<u>(104,473)</u>	<u>8,655,865</u>	<u>174,694,838</u>
Less accumulated depreciation for:					
Landscaping	(4,313,506)	(237,939)			(4,551,445)
Buildings and structures	(21,788,933)	(864,133)			(22,653,066)
Water distribution system	(3,921,774)	(395,556)			(4,317,330)
Electric transmission and distribution system	(10,507,353)	(2,126,644)			(12,633,997)
Machinery and equipment	(6,418,415)	(213,601)			(6,632,016)
Vehicles	(5,277,931)	(521,951)	77,333		(5,722,549)
Intangible plant	(6,162,924)	(214,476)			(6,377,400)
Total accumulated depreciation	<u>(58,390,836)</u>	<u>(4,574,300)</u>	<u>77,333</u>		<u>(62,887,803)</u>
Total capital assets being depreciated, net	<u>106,033,552</u>	<u>(2,855,242)</u>	<u>(27,140)</u>	<u>8,655,865</u>	<u>111,807,035</u>
CAPITAL ASSETS, NET	<u><u>\$132,451,471</u></u>	<u><u>\$ 7,190,014</u></u>	<u><u>\$ (27,140)</u></u>	<u><u>\$ -</u></u>	<u><u>\$139,614,345</u></u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE C – CAPITAL ASSETS (Continued)

	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	<u>23,715,038</u>	<u>14,272,004</u>		<u>(11,569,123)</u>	<u>26,417,919</u>
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	91,924	(14,252)		9,338,901
Vehicles	7,120,664	608,787	(752,601)		6,976,850
Intangible plant	8,300,435	43,563			8,343,998
Total capital assets being depreciated	<u>152,879,595</u>	<u>744,274</u>	<u>(768,604)</u>	<u>11,569,123</u>	<u>164,424,388</u>
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)	(225,134)	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	<u>(54,955,065)</u>	<u>(4,147,469)</u>	<u>711,698</u>		<u>(58,390,836)</u>
Total capital assets being depreciated, net	<u>97,924,530</u>	<u>(3,403,195)</u>	<u>(56,906)</u>	<u>11,569,123</u>	<u>106,033,552</u>
CAPITAL ASSETS, NET	<u>\$121,639,568</u>	<u>\$ 10,868,809</u>	<u>\$ (56,906)</u>	<u>\$ -</u>	<u>\$132,451,471</u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

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, 2007 and 2006 are as follows:

	Balance January 1, 2007	Additions	Repayments	Balance December 31, 2007	Due Within One Year
Long-term debt:					
Merced River					
Development Bonds	\$ 10,755,000		\$ (1,220,000)	\$ 9,535,000	\$ 1,270,000
1998 Note payable	349,167		(19,361)	329,806	329,806
2001 Certificates of Participation	6,265,000		(760,000)	5,505,000	790,000
2003 Revenue Certificates of Participation	14,330,000		(210,000)	14,120,000	220,000
2005 Electric System Refunding Revenue Bonds	63,050,000			63,050,000	300,000
2005 Revenue Certificates of Participation	15,000,000			15,000,000	260,000
2005 Warrants	5,000,000			5,000,000	
Pioneer Substation Note Payable	334,909		(334,909)		
	<u>115,084,076</u>		<u>(2,544,270)</u>	<u>112,539,806</u>	<u>3,169,806</u>
Capital leases	<u>833,658</u>		<u>(159,833)</u>	<u>673,825</u>	<u>108,991</u>
Total	115,917,734		<u>\$ (2,704,103)</u>	113,213,631	<u>\$ 3,278,797</u>
Add:					
Deferred amount on refunding	(4,559,330)			(4,202,906)	
Bond discounts	(380,748)			(354,333)	
Bond premiums	1,962,145			1,816,755	
Less: Current portion of Long-term debt	<u>(2,696,648)</u>			<u>(3,278,797)</u>	
Total long-term debt	<u>\$110,243,153</u>			<u>\$107,194,350</u>	
Accrued compensated absences	<u>\$ 1,113,266</u>	<u>\$ 121,649</u>		<u>\$ 1,234,915</u>	

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE D – LONG-TERM LIABILITIES (Continued)

	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>	115,084,076	2,544,270
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>	

Long-Term Debt: Long-term debt consists of the following at December 31, 2007:

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 \$402,406 to \$808,781 are due on January 1 and July 1 through July 1, 2014.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

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 3.60% 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 \$117,590 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 \$220,000 to \$945,000 are due annually on September 1 through September 1, 2036. Interest payments ranging from \$26,933 to \$390,603 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 were secured by a lien on the District's electric system net revenues. The interest rate was 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 5.75%. 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, 2007

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. This note was paid off as of 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>
2008	\$ 3,169,806	\$ 5,459,589	\$ 8,629,395
2009	8,755,000	5,341,959	14,096,959
2010	3,890,000	5,005,618	8,895,618
2011	3,275,000	4,860,738	8,135,738
2012	3,400,000	4,736,673	8,136,673
2013-2017	13,895,000	21,518,203	35,413,203
2018-2022	14,150,000	18,468,425	32,618,425
2023-2027	18,125,000	14,494,785	32,619,785
2028-2032	21,860,000	9,428,864	31,288,864
2033-2036	<u>22,020,000</u>	<u>3,005,235</u>	<u>25,025,235</u>
Total	<u>\$ 112,539,806</u>	<u>\$ 92,320,089</u>	<u>\$ 204,859,895</u>

Pledged Revenues: The District has pledged future electric customer revenues, net of specified operating expenses, to repay \$15,000,000 of Revenue Certificates of Participation issued in March 2003, \$63,050,000 of Electric System Refunding Revenue Bonds issued in November 2005, and \$15,000,000 of Revenue Certificates of Participation issued in November 2005. Proceeds from the Bonds provided financing for improvements to the electric system. The bonds are payable solely from electric customer net revenues and are payable through September 2036. Annual principal and interest payments on the Bonds are expected to require approximately 80% of net revenues. The total principal and interest remaining to be paid on the Bonds is \$180,654,000. Principal and interest paid for the current year and total electric customer net revenues were \$4,885,019 and \$6,255,123, respectively.

Capital Leases: The District purchased heavy equipment under a capital lease with the final payment of \$48,570 made on March 6, 2007. This lease qualified as a capital lease and, therefore, was recorded at the present value of future minimum lease payments as of the date of its inception. The interest rate for this lease was 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.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE D – LONG-TERM LIABILITIES (Continued)

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, 2007:

2008	\$ 134,181
2009	134,181
2010	134,181
2011	134,181
2012	134,181
2013	83,944
Total minimum lease payments	<u>754,849</u>
Less: Amount representing interest	<u>(81,024)</u>
Present value of minimum lease payments	<u>\$ 673,825</u>

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, 2006, the District was in a negative arbitrage position. At December 31, 2007, the District was in a positive arbitrage position in the amount of \$30,906 relating to the 2005 warrants.

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: In 2007, the District amended and extended its current power supply agreement with TID from the period of January 1, 2006 through April 2008, out through April 30, 2009, while maintaining the transaction charge reduction of \$.25 per megawatt-hour for the period January 1, 2007 through the end of the agreement. This partial requirements power supply agreement provides power for all of the District’s power requirements with the exception of the power supplied by WAPA. The price of this power supply is tied to the Daily Dow Jones North Path 15 index times 106% plus \$4.75 per megawatt-hour.

The contract amendment also implemented several changes to other original contract terms. The amendment allows the energy price to be adjusted by any congestion charges and losses between the Delivery Point and the NP 15 location. It reduces the transmission loss percentage applied to the power purchased from TID from 3% to 2% for the period May 1, 2008 through April 30, 2009. Also, beginning December 31, 2007, the District is required to supply sufficient generating reserves to meet the Resource Adequacy Policy established by the Turlock Board of Directors for TID. The District’s purchases in 2007 and 2006 totaled \$27,440,820 and \$22,889,743, 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 \$25.01 and \$10.34 per megawatt hour in 2007 and 2006, respectively. The District’s purchases in 2007 and 2006 totaled \$302,302 and \$477,680, respectively.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE E – ENERGY SUPPLY PURCHASES AND COMMITMENTS (Continued)

PPM Energy Inc.: The District entered into a 25 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 \$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. In 2007, this agreement was extended through to January 1, 2009. The price per megawatt-hour is 90% of the Powerdex hourly index at North Path 15 minus \$1.00. The District's purchases in 2007 and 2006 totaled \$744,408 and \$632,804, respectively. The District's sales back to PPM in 2007 and 2006 totaled \$618,034 and \$442,743, respectively.

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 2007 and 2006 was \$3,771,110 and \$1,586,342, respectively.

The fair values of the electricity price swap agreements are based on forward prices from established indices for the applicable region and discounted using the District's estimated cost of funds of 5.5% at December 31, 2007 and 2006. The estimated fair values of the District's swap agreements as of December 31, are as follows:

	2007			2006		
	Fixed Payment Obligation	Fair Value	Net Loss	Fixed Payment Obligation	Fair Value	Net Loss
Electricity Swaps	\$35,459,615	\$34,334,587	\$ (1,125,028)	\$35,227,545	\$32,234,392	\$ (2,993,153)

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:

	2007	2006
Debt service payments	\$ 9,328,275	\$ 8,685,987
Federal Energy Regulatory Commission (FERC) Relicensing Costs	2,855,164	3,953,486
Mariposa County water rights settlement	1,023,662	1,080,730
Recreation plan operations and maintenance	1,120,912	1,074,447
Recreation plan future stage construction	6,413	6,143
	<u>\$ 14,334,426</u>	<u>\$ 14,800,793</u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

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>2007</u>	<u>2006</u>
Rate stabilization	\$ 7,000,000	\$ 5,000,000
Electric Services working capital reserve	5,000,000	4,000,000
Parks capital project reserve	<u>160,000</u>	<u>40,000</u>
Total	<u>\$ 12,160,000</u>	<u>\$ 9,040,000</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 future capital projects within the parks.

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.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

Funding Policy: Active plan members are required to contribute 7% of their annual covered salary, of which the District contributes 5% of annual covered salaries on behalf of District employees and for their account at December 31, 2007. Contributions made by the District on behalf of the employees were \$497,160 and \$365,973 for the years ended December 31, 2007 and 2006, respectively. The District is required to contribute at an actuarially determined rate; the rate for January 1 to June 30, 2007 was 12.02% and for July 1 to December 31, 2007 was 11.67%. 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, 2007 and 2006, the District incurred an annual pension cost of \$1,194,927 and \$1,248,543, respectively. The required contribution was determined as part of the June 30, 2004 and 2005 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, 2005 was 26 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, 2005	\$ 1,221,719	100%
December 31, 2006	1,248,543	100%
December 31, 2007	1,194,927	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>
6/30/2004	\$ 25,637,254	\$ 34,286,605	\$ (8,649,351)	74.80%	\$ 9,389,403	(92.1%)
6/30/2005	28,701,283	36,272,673	(7,571,390)	79.10%	8,854,119	(85.5%)
6/30/2006	31,839,500	39,366,263	(7,526,763)	80.88%	9,413,485	(80.0%)

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, 2007 and 2006, 12 and 16 retirees met those eligibility requirements, respectively. Covered retirees are not required to make contributions to receive the benefits. Retirees are required to contribute a \$80 monthly payment for dependent coverage. The accrued liability was \$1,686,622 at December 31, 2007 and \$1,336,878 at December 31, 2006. No assets are being set aside to fund these benefits. The net present value of the postemployment benefit obligation for 2007 and 2006 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.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

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:

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

The District continues to carry commercial insurance for all other risks of loss to which the District is exposed. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Effective January 1, 1996, the District changed to ACWA/JPIA for workers' compensation liability coverage. Prior to January 1, 1996, the District was self-insured for workers' compensation. The District has recorded an accrual of \$27,042 and \$30,489 at December 31, 2007 and 2006, 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.

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.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE K – LINE OF CREDIT

The District has a \$7,000,000 line of credit that expires on June 15, 2008. The interest rate on this line of credit is the Wall Street Journal prime rate plus 1% adjustable monthly. At December 31, 2007 and 2006, 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, Water Transfers, MID Public Facilities Financing Corporation, and the Water Utility Facility Improvement Funds.

	2007		2006	
	Electric Services	Water Operations	Electric Services	Water Operations
CONDENSED BALANCE SHEET				
Assets:				
Capital assets	\$ 73,090,880	\$ 33,740,282	\$ 69,347,927	\$ 30,343,963
Other assets	4,682,824	155,156	5,005,778	170,672
Current assets	26,233,246	37,878,180	28,344,266	29,294,149
Total assets	<u>104,006,950</u>	<u>71,773,618</u>	<u>102,697,971</u>	<u>59,808,784</u>
Liabilities:				
Long-term and other liabilities	93,441,221	7,752,266	94,491,247	8,369,537
Interfund payables		5,320,812		2,972,695
Other current liabilities	5,208,444	7,238,835	2,957,329	1,916,071
Total liabilities	<u>98,649,665</u>	<u>20,311,913</u>	<u>97,448,576</u>	<u>13,258,303</u>
Net assets:				
Invested in capital assets, net of related debt	(13,398,226)	28,045,334	(9,195,681)	23,879,113
Restricted	7,472,831	1,154,174	7,360,770	1,243,294
Unrestricted	<u>11,282,680</u>	<u>22,262,197</u>	<u>7,084,306</u>	<u>21,428,074</u>
Total net assets	<u>\$ 5,357,285</u>	<u>\$ 51,461,705</u>	<u>\$ 5,249,395</u>	<u>\$ 46,550,481</u>

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2007

NOTE L – DISCLOSURE OF SEGMENT INFORMATION (Continued)

	2007		2006	
	Electric Services	Water Operations	Electric Services	Water Operations
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating revenues (pledged against bonds)	\$ 46,144,731	\$ 14,844,118	\$ 40,494,819	\$ 10,995,319
Depreciation and amortization expense	(2,613,081)	(1,230,153)	(2,332,090)	(1,139,464)
Other operating expenses	<u>(40,545,794)</u>	<u>(15,990,574)</u>	<u>(32,925,585)</u>	<u>(13,662,168)</u>
Operating income	2,985,856	(2,376,609)	5,237,144	(3,806,313)
Non-operating revenues (expenses):				
Property taxes		2,306,705		1,773,709
Other non-operating revenues	771,055	1,869,466	1,192,752	1,653,198
Interest expense	(4,572,191)	(343,367)	(4,695,119)	(392,302)
Capital contributions	1,485,339	2,334,009	2,390,001	2,983,888
Transfers in	421,882	2,390,197	357,080	5,258,267
Transfers out	<u>(984,051)</u>	<u>(1,269,177)</u>	<u>(2,150,636)</u>	<u>(1,911,269)</u>
Change in net assets	107,890	4,911,224	2,331,222	5,559,178
Beginning net assets	<u>5,249,395</u>	<u>46,550,481</u>	<u>2,918,173</u>	<u>40,991,303</u>
Ending net assets	<u>\$ 5,357,285</u>	<u>\$ 51,461,705</u>	<u>\$ 5,249,395</u>	<u>\$ 46,550,481</u>
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by:				
Operating activities	\$ 744,846	\$ 2,748,322	\$ 7,109,167	\$ 195,869
Noncapital financing activities	107,641	3,271,722	201,088	2,251,764
Capital and related financing activities	(9,575,456)	(3,210,083)	(13,099,862)	(2,168,098)
Investing activities	<u>705,961</u>	<u>1,208,289</u>	<u>991,364</u>	<u>879,917</u>
Net increase (decrease)	(8,017,008)	4,018,250	(4,798,243)	1,159,452
Beginning cash and cash equivalents	<u>19,613,101</u>	<u>18,070,812</u>	<u>24,411,344</u>	<u>16,911,360</u>
Ending cash and cash equivalents	<u>\$ 11,596,093</u>	<u>\$ 22,089,062</u>	<u>\$ 19,613,101</u>	<u>\$ 18,070,812</u>

SUPPLEMENTAL INFORMATION

MERCED IRRIGATION DISTRICT

BALANCE SHEETS BY FUND

December 31, 2007

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
ASSETS					
CAPITAL ASSETS, NET	\$ 73,090,880	\$ 33,585,186	\$ 28,178,826	\$ 3,592,782	\$ 879,169
OTHER NONCURRENT ASSETS					
Deferred relicense costs					
Debt issuance costs	4,682,824				
TOTAL OTHER NONCURRENT ASSETS	4,682,824				
CURRENT ASSETS					
Cash and cash equivalents	390,751	20,414,843	33,792	10,817	621,073
Accounts receivable, net	6,525,356	525,766	430,568	18,500	12
Due from other governmental agencies		625,814			
Accrued interest and taxes receivable	43,995	1,311,681	3,560	3,376	
Inventory	4,091,283	231,975			
Prepaid expenses and other current assets	153,262	384,508	110,706	37,050	11,375
Due from other funds	4,948,285	7,641,960			372,527
Restricted cash and cash equivalents	11,205,342	1,023,662	1,624,931	1,127,325	
Derivative financial instruments	(1,125,028)				
TOTAL CURRENT ASSETS	26,233,246	32,160,209	2,203,557	1,197,068	1,004,987
TOTAL ASSETS	\$ 104,006,950	\$ 65,745,395	\$ 30,382,383	\$ 4,789,850	\$ 1,884,156

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
			\$ 155,096		\$ 132,406		\$ 139,614,345
				\$ 5,156,638 46,877			5,156,638 4,884,857
	\$ 155,156						10,041,495
	155,156			5,203,515			10,041,495
\$ 520,045					500 5,750	\$ (10,455)	21,991,821 7,495,497
1,025,125		\$ 3,750,000					5,400,939
							1,362,612 4,323,258
115,823 15,734,817	525,486 130,512	3,107,170		2,955,164	65,663 96,000	(32,426,245)	878,387 18,066,936 (1,125,028)
<u>17,395,810</u>	<u>655,998</u>	<u>6,857,170</u>		<u>2,955,164</u>	<u>167,913</u>	<u>(32,436,700)</u>	<u>58,394,422</u>
<u>\$ 17,395,810</u>	<u>\$ 811,154</u>	<u>\$ 6,857,170</u>	<u>\$ 155,096</u>	<u>\$ 8,158,679</u>	<u>\$ 300,319</u>	<u>\$(32,436,700)</u>	<u>\$ 208,050,262</u>

MERCED IRRIGATION DISTRICT
BALANCE SHEETS BY FUND (Continued)

December 31, 2007

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
LIABILITIES AND NET ASSETS					
LONG-TERM LIABILITIES					
Long-term debt	\$ 89,332,626		\$ 8,265,000		
Accrued compensated absences	182,462	\$ 739,662	80,610	\$ 118,000	\$ 4,044
Accrued post-employment benefits		1,686,622			
TOTAL LONG-TERM LIABILITIES	89,515,088	2,426,284	8,345,610	118,000	4,044
OTHER LIABILITIES					
Deferred public purpose program revenues	2,221,638				
Deferred power cost reductions	1,500,000				
Deposits	204,495	721,334		2,420	
TOTAL OTHER LIABILITIES	3,926,133	721,334		2,420	
CURRENT LIABILITIES					
Accounts payable	570,819	628,320	404,705	10,614	160
Accrued permission fees	834,290				
Accrued power purchase expense	2,707,999				
Other accrued expenses	164,981	477,845	66,112	(883)	402
Deferred revenue		188,022			
Accrued interest payable	1,166,392	7,095	148,984		
Due to other funds gain on swap contracts	(1,125,028)	24,506,275	2,889,924	3,890,570	96,000
Current portion of long-term debt	888,991	329,806	1,270,000		
TOTAL CURRENT LIABILITIES	5,208,444	26,137,363	4,779,725	3,900,301	96,562
TOTAL LIABILITIES	98,649,665	29,284,981	13,125,335	4,020,721	100,606
NET ASSETS					
Invested in capital assets, net of related debt	(13,398,226)	33,255,380	18,643,827	3,592,782	879,170
Restricted	7,472,831	1,023,662	1,624,932	1,127,325	
Unrestricted	11,282,680	2,181,372	(3,011,711)	(3,950,978)	904,380
TOTAL NET ASSETS	5,357,285	36,460,414	17,257,048	769,129	1,783,550
TOTAL LIABILITIES AND NET ASSETS	\$ 104,006,950	\$ 65,745,395	\$ 30,382,383	\$ 4,789,850	\$ 1,884,156

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
\$ 29,509	\$ 4,575,139			\$ 5,021,585	\$ 80,628		\$ 107,194,350
29,509	4,575,139			5,021,585	80,628		1,234,915
							1,686,622
							110,115,887
							2,221,638
							1,500,000
							928,249
							4,649,887
7,558			\$ 185,893	28,563	19,516	\$ (10,455)	1,845,693
							834,290
4,697	1			50,036	16,256		2,707,999
	19,598	\$ 4,600,000		83,333			779,447
			5,544	811,685	226,247	(32,426,245)	4,788,022
							1,425,402
	790,000						(1,125,028)
12,255	809,599	4,600,000	191,437	973,617	262,019	(32,436,700)	3,278,797
41,764	5,384,738	4,600,000	191,437	5,995,202	342,647	(32,436,700)	14,534,622
	(5,365,140)		155,094		132,406		37,895,293
	130,512			2,955,164			14,334,426
17,354,046	661,044	2,257,170	(191,435)	(791,687)	(174,734)		26,520,147
17,354,046	(4,573,584)	2,257,170	(36,341)	2,163,477	(42,328)		78,749,866
<u>\$ 17,395,810</u>	<u>\$ 811,154</u>	<u>\$ 6,857,170</u>	<u>\$ 155,096</u>	<u>\$ 8,158,679</u>	<u>\$ 300,319</u>	<u>\$(32,436,700)</u>	<u>\$ 208,050,262</u>

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

For the year ended December 31, 2007

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
OPERATING REVENUES					
Electric sales and services	\$ 46,144,731				
Water sales and services		\$ 9,658,878			
Hydroelectric sales and services			\$ 6,179,373		
Water transfers					
Recreation fees				\$ 1,821,687	
Rental income					
Administrative services					
Storm drainage fees					\$ 67,240
TOTAL OPERATING REVENUES	<u>46,144,731</u>	<u>9,658,878</u>	<u>6,179,373</u>	<u>1,821,687</u>	<u>\$ 67,240</u>
OPERATING EXPENSES					
Purchase of power	30,914,133				
Water distribution		14,141,187			
Electric transmission and distribution	9,629,975		3,680,618		
Recreation				1,750,324	
Storm drainage					57,705
Administrative and general	1,686	2,034,436	1,685		25,685
Depreciation and amortization	2,613,081	1,214,637	659,320	351,973	24,288
TOTAL OPERATING EXPENSES	<u>43,158,875</u>	<u>17,390,260</u>	<u>4,341,623</u>	<u>2,102,297</u>	<u>107,678</u>
NET INCOME (LOSS) FROM OPERATIONS	2,985,856	(7,731,382)	1,837,750	(280,610)	(40,438)
NON-OPERATING REVENUE (EXPENSES)					
Property taxes		2,306,705			217,944
Interest income	661,426	1,164,617	23,428	49,732	27,261
Other non-operating income	107,641	558,221	34,863	2,152	32,859
Gain on disposal of capital assets	1,988	102,863	3,850	2,994	
Interest expense	(4,572,191)	(27,563)	(372,906)		
Transfers in	421,882	2,027,416			9,931
Transfers out	(984,051)	(962,263)	(103,697)	(152,181)	(33,808)
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>(4,363,305)</u>	<u>5,169,996</u>	<u>(414,462)</u>	<u>(97,303)</u>	<u>254,187</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,377,449)	(2,561,386)	1,423,288	(377,913)	213,749
CAPITAL CONTRIBUTIONS	<u>1,485,339</u>	<u>2,334,009</u>			
CHANGE IN NET ASSETS	107,890	(227,377)	1,423,288	(377,913)	213,749
Net assets at beginning 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>
Net assets at end of year	<u>\$ 5,357,285</u>	<u>\$ 36,460,414</u>	<u>\$ 17,257,048</u>	<u>\$ 769,129</u>	<u>\$ 1,783,550</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
						\$ (110,687)	\$ 46,034,044
							9,658,878
\$ 3,785,241		\$ 1,399,999					6,179,373
	\$ 1,067,916						5,185,240
					\$ 2,063,492	(1,067,916)	1,821,687
						(2,063,492)	
							67,240
<u>3,785,241</u>	<u>1,067,916</u>	<u>1,399,999</u>			<u>2,063,492</u>	<u>(3,242,095)</u>	<u>68,946,462</u>
							30,914,133
879,803	3,064					(1,178,603)	13,845,451
						(23,000)	13,287,593
							1,750,324
							57,705
					1,980,938	(2,063,492)	1,980,938
	<u>15,516</u>			\$ 46,877	<u>33,954</u>		<u>4,959,646</u>
<u>879,803</u>	<u>18,580</u>			<u>46,877</u>	<u>2,014,892</u>	<u>(3,265,095)</u>	<u>66,795,790</u>
2,905,438	1,049,336	1,399,999		(46,877)	48,600	23,000	2,150,672
							2,524,649
26,880	796		\$ 16,075	116,244	624		2,087,083
			14		35,101	(23,000)	747,851
	(315,804)			(41,256)			111,695
300,570	21,498	40,713			192,261	(3,014,271)	(5,329,720)
(118,783)	(93)		(188,038)	(194,771)	(276,586)	3,014,271	
<u>208,667</u>	<u>(293,603)</u>	<u>40,713</u>	<u>(171,949)</u>	<u>(119,783)</u>	<u>(48,600)</u>	<u>(23,000)</u>	<u>141,558</u>
3,114,105	755,733	1,440,712	(171,949)	(166,660)			2,292,230
							3,819,348
<u>3,114,105</u>	<u>755,733</u>	<u>1,440,712</u>	<u>(171,949)</u>	<u>(166,660)</u>			<u>6,111,578</u>
14,239,941	(5,329,317)	816,458	135,608	2,330,137	(42,328)		72,638,288
<u>\$ 17,354,046</u>	<u>\$(4,573,584)</u>	<u>\$ 2,257,170</u>	<u>\$ (36,341)</u>	<u>\$ 2,163,477</u>	<u>\$ (42,328)</u>	<u>\$ -</u>	<u>\$ 78,749,866</u>

MERCED IRRIGATION DISTRICT
SCHEDULE OF CASH FLOWS BY FUND

December 31, 2007

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers	\$ 45,404,396	\$ 9,341,698	\$ 6,523,301	\$ 1,815,316	\$ 48,728
Cash paid to suppliers for goods and services	(39,248,679)	(12,355,470)	(2,545,254)	(888,676)	(100,157)
Cash paid to employees for services	(2,608,066)	(4,883,026)	(957,530)	(866,550)	(21,791)
Cash receipts/payments to other funds	(2,802,805)	8,834,265	(7,428)	58,860	(79,987)
NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES	744,846	937,467	3,013,089	118,950	(153,207)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Non-operating interfund transfers		364,244			
Property taxes received		2,349,243			217,944
Relicense costs incurred					
Interest payments on long-term debt					
Other income/expenses	107,641	558,221	34,863	4,297	32,859
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	107,641	3,271,708	34,863	4,297	250,803
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(4,596,621)	(3,585,738)	(942,992)	(136,140)	
Proceeds from the sale of equipment	4,190	102,863	27,783	4,000	
Reimbursements received for capital assets	46,678	2,389,633			
Principal payments on long-term debt	(657,088)	(67,015)	(1,220,000)		
Interest payments on long-term debt	(4,372,615)	(28,280)	(391,969)		
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(9,575,456)	(1,188,537)	(2,527,178)	(132,140)	
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on investments	705,961	1,164,406	24,269	50,806	27,261
NET CASH PROVIDED BY INVESTING ACTIVITIES	705,961	1,164,406	24,269	50,806	27,261
INCREASE (DECREASE) IN CASH	(8,017,008)	4,185,044	545,043	41,913	124,857
Cash and cash equivalents at beginning of year	19,613,101	17,253,461	1,113,680	1,096,229	496,216
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 11,596,093	\$ 21,438,505	\$ 1,658,723	\$ 1,138,142	\$ 621,073

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
\$ 3,107,977	\$ 1,067,916	\$ 2,249,999			\$ 2,057,742	\$(3,247,006)	\$ 68,370,067
(530,196)	(3,073)		\$ 180,175		(1,023,791)	5,333,498	(51,181,623)
(386,619)			642,832		(966,642)		(10,690,224)
(2,191,162)	(76,995)	(2,249,999)			(64,089)	(2,063,492)	
	987,848		823,007		3,220	23,000	6,498,220
				\$ (364,244)			2,567,187
				(804,573)			(804,573)
				(200,004)			(200,004)
			14		35,101	(23,000)	749,996
			14	(1,368,821)	35,101	(23,000)	2,312,606
			(1,000,718)		(38,945)		(10,301,154)
	(760,000)						138,836
	(260,828)						2,436,311
							(2,704,103)
							(5,053,692)
	(1,020,828)		(1,000,718)		(38,945)		(15,483,802)
26,880	928		16,075	116,667	624		2,133,877
26,880	928		16,075	116,667	624		2,133,877
26,880	(32,052)		(161,622)	(1,252,154)			(4,539,099)
493,165	162,564		161,622	4,207,318	500		44,597,856
\$ 520,045	\$ 130,512	\$ -	\$ -	\$ 2,955,164	\$ 500	\$ -	\$ 40,058,757

MERCED IRRIGATION DISTRICT

SCHEDULE OF CASH FLOWS BY FUND (Continued)

December 31, 2007

	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	\$ 2,985,856	\$ (7,731,382)	\$ 1,837,750	\$ (280,610)	\$ (40,438)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) for operating activities:					
Depreciation and amortization	2,613,081	1,214,637	659,320	351,973	24,289
Transfers to/from other funds	(562,169)	(157,768)	(103,697)	(152,181)	(23,877)
Changes in operating assets and liabilities:					
Accounts receivable	(988,960)	(140,201)	343,928	(5,487)	3,047
Due from other governmental agencies	16,774	46,411			
Inventory	(1,390,833)	(22,422)			
Prepaid expenses and other current assets	257,891	36,207	(14,430)	(3,128)	1,583
Swap sale receivable	265,052				
Accounts payable	(148,468)	323,286	243,850	(3,139)	(15,771)
Accrued permission fees	114,705				
Accrued power purchase expense	477,471				
Other accrued expenses	(297,727)	180,684	(61,454)	(429)	812
Deferred revenue		(340,341)			
Deferred power cost reduction	(600,000)				
Due to/from other funds	(2,242,322)	6,957,597	94,584	211,041	(81,795)
Deposits	7,232	116,951		(884)	(21,559)
Deferred public purpose program revenues	224,619				
Accrued postemployment benefits		349,744			
Accrued compensated absences	12,644	104,064	13,238	1,794	502
	<u>\$ 744,846</u>	<u>\$ 937,467</u>	<u>\$ 3,013,089</u>	<u>\$ 118,950</u>	<u>\$ (153,207)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Receipt of contributed electric system assets from developers	\$ 1,438,660	\$ 24,500			
Change in derivative financial instruments	\$ 1,868,125				

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
\$ 2,905,438	\$ 1,049,336	\$ 1,399,999		\$ (46,877)	\$ 48,600	\$ 23,000	\$ 2,150,672
181,787	15,516 21,405	40,713	\$ 670,639	46,877	33,954 (84,325)		4,959,647 (169,473)
3,361 (680,625)		(3,750,000)			(5,750)	(4,911)	(794,973) (4,367,440)
(707)					(14,088)		(1,413,255) 263,328
(22,885)			180,176		(18,908)	4,911	265,052 543,052
4,372	(9)		(1)		16,302		114,705 477,471 (157,450)
(2,372,949)	(98,400)	4,600,000 (2,290,712)	(27,807)		20,236		4,259,659 (600,000) 169,473
(17,792)					7,199		101,740 224,619 349,744 121,649
<u>\$ -</u>	<u>\$ 987,848</u>	<u>\$ -</u>	<u>\$ 823,007</u>	<u>\$ -</u>	<u>\$ 3,220</u>	<u>\$ 23,000</u>	<u>\$ 6,498,220</u>

\$ 1,463,160
\$ 1,868,125

MERCED IRRIGATION DISTRICT

2007 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP'S AND BONDS

ELECTRIC SERVICES

Net Income	\$ 107,890
Add Back:	
Depreciation and amortization expense	2,613,081
Bond interest expense	4,542,501
Operating transfer out	571,000
Less:	
Capital contribution revenue	(1,485,339)
Inter-fund interest expense	<u>(94,010)</u>
Reconciled net revenue	<u>\$ 6,255,123</u>
2007 COP debt service related to outstanding COP's and Bonds	\$ 4,885,019
Debt service coverage	128%

MERCED IRRIGATION DISTRICT

2007 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP'S

WATER OPERATIONS

Net Income	\$ 4,911,224
Add Back:	
Depreciation and amortization expense	1,230,153
Bond interest expense	315,804
Interfund interest revenue	22,181
Less:	
Capital contribution revenue	(2,334,009)
Operating transfer in	<u>(737,660)</u>
Reconciled net revenue	<u>\$ 3,407,693</u>
2007 COP debt service related to outstanding COP's	\$ 1,018,693
Debt service coverage	335%

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