

MERCED IRRIGATION DISTRICT
AUDITED FINANCIAL STATEMENTS
December 31, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Merced Irrigation District
Merced, California

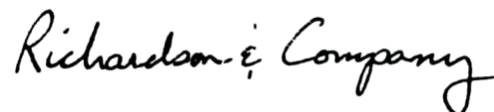
We have audited the accompanying basic financial statements of the Merced Irrigation District (the District) as of December 31, 2009 and 2008 for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility 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, 2009 and 2008 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.



June 4, 2010



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2009

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, 2009. The District's 2008 and 2007 financial results have been presented for purposes of providing comparative data. This discussion and analysis should be read in conjunction with the financial statements, including the notes to the financial statements, beginning on page 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 farms in the central portion of the San Joaquin Valley located around the city of Merced. The District was organized under the California Water Code in 1919. Today, the District is comprised of 5 major operational enterprises: Water Operations, Parks and Recreation, Hydroelectric Project, Electric Services, and Storm Drainage.

The District provides surface irrigation water to approximately 107,000 acres within its 164,000 acre boundary. In addition, the District partially serves approximately 12,000 acres of agricultural lands outside its boundary along with portions of adjacent water districts, but within its 420,000 acre sphere of influence (SOI), which encompasses all lands within the Merced Groundwater Basin located in the eastern part of Merced County, in addition to lands adjacent to its boundary north of the Merced River. The District also provides 21,000 acre feet of irrigation water to Stevinson Water District and 15,600 acre feet to Merced National Wildlife Refuge, both located westerly of the District. The District distributes water through 825 miles of earthen and concrete lined canals, and pipelines. The District also owns and operates more than 220 wells within its boundary for use in dry years. In 2009, the District delivered 259,822 acre feet of irrigation water to approximately 2,200 fields farmed by 1,700 customers.

MERCED IRRIGATION DISTRICT

In addition to providing irrigation water, the District also uses portions of its existing irrigation distribution system for urban storm drainage by routing natural stream flows and runoff from urban developments, away from populated areas. The District formed the Merced Irrigation District Drainage District #1 (MIDDID#1) in 1994. At the end of 2009, there were approximately 17,730 residential, commercial, industrial, and government parcels located primarily within the urban area of the District that received drainage service.

The District owns, operates and maintains five recreation areas adjacent to the lakes behind New Exchequer and McSwain Dams. The Lake McSwain Recreation Area is located adjacent to Lake McSwain. McClure Point, Barrett Cove, Horseshoe Bend and Bagby Recreation Areas are all located adjacent to Lake McClure. A total of six boat launch facilities are available in the Parks system. The District is in the process of building a 7th boat launch facility on Lake McClure at McClure Point. The completion date is dependent on the State release of grant funds approved for the project. Over 600 campsites are available to the public on a year-round basis. Floating marinas are located on Lake McSwain and in two locations on Lake McClure for the boating public. Recreational activities enjoyed in the recreation areas include fishing, boating, swimming, camping, hiking and bicycling. In 2009, the various Parks locations had a combined 646,240 visitor days. In addition, the District maintains two fishing access locations on Merced River downstream from the lakes.

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

The District is authorized to act as an electric utility under the California Water Code. The District has owned and operated hydroelectric generating facilities on the Merced River since 1927. In 1995, the District exercised its authority to sell power to retail electric customers. The District offers its customers full requirements electric service including power supply and delivery to the customer. Since 1996, the District has connected over 7,800 customers to the District's electric system. Electric peak demand at the height of the 2009 summer season was 88 megawatts.

Required Financial Statements

This annual financial report consists of three parts: Management's Discussion and Analysis, the Basic Financial Statements, and Supplementary Information. The District's financial statements include the (1) 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 *Statement 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 *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period as well as net changes in cash resulting from operations, investing, and financing activities. The statement explains where cash came from and where cash was used and the change in the cash balance during the reporting period.

Financial Highlights

- The District's total assets increased by \$0.9 million in 2009, excluding derivative financial instruments which increased by \$6.5 million. Total liabilities decreased by \$1.3 million excluding the corresponding liability for unrealized losses on derivative instruments.
- The District continued its efforts to obtain a new operating license for the hydroelectric project from the Federal Energy Regulatory Commission (FERC) by obtaining a favorable final determination for study plans in December of 2009 to be implemented in 2010. The District has expended \$8.7 million on relicensing efforts as of December 31, 2009. The current license expires on February 28, 2014. The District fully expects to be granted a new license by the FERC.
- Operating revenue of \$76.2 million and operating expense of \$73.0 million resulted in net income from operations of \$3.2 million. Net non-operating expense of \$1.8 million is the result of total non-operating revenue of \$3.6 million offset by interest expense of \$5.4 million. The District also received capital contributions totaling \$0.7 million.
- The District's total cash and cash equivalents decreased by \$1.9 million in 2009. This was primarily due to reduction in cash related to capital spending and the payment on debt.

MERCED IRRIGATION DISTRICT

Financial Analysis of the District

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

CONDENSED BALANCE SHEETS

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-----------------------|-----------------------|
| ASSETS | | | |
| Capital assets, net | \$ 138,239,644 | \$ 139,341,900 | \$ 139,614,345 |
| Other non-current assets | 15,548,826 | 12,402,686 | 10,041,495 |
| Current assets | 66,050,391 | 60,717,410 | 58,394,422 |
| Total assets | <u>\$ 219,838,861</u> | <u>\$ 212,461,996</u> | <u>\$ 208,050,262</u> |
| LIABILITIES | | | |
| Long-term liabilities | \$ 124,746,470 | \$ 126,744,533 | \$ 110,115,887 |
| Other liabilities | 7,364,507 | 8,508,307 | 4,649,887 |
| Current liabilities | 6,788,839 | (1,559,464) | 14,534,622 |
| Total liabilities | <u>\$ 138,899,816</u> | <u>\$ 133,693,376</u> | <u>\$ 129,300,396</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | \$ 39,111,893 | \$ 37,589,323 | \$ 37,895,293 |
| Restricted | 13,831,119 | 15,563,378 | 14,334,426 |
| Unrestricted | 27,996,033 | 25,615,919 | 26,520,147 |
| Total net assets | <u>\$ 80,939,045</u> | <u>\$ 78,768,620</u> | <u>\$ 78,749,866</u> |
| Total liabilities and net assets | <u>\$ 219,838,861</u> | <u>\$ 212,461,996</u> | <u>\$ 208,050,262</u> |

CONDENSED CAPITAL ASSETS DETAIL

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|----------------------------------|-----------------------|-----------------------|-----------------------|
| Distribution system, net | \$ 82,586,582 | \$ 76,164,339 | \$ 75,283,982 |
| Land and easements | 13,144,380 | 13,144,380 | 13,144,380 |
| Structures and improvements, net | 28,056,765 | 28,790,979 | 29,559,510 |
| Equipment, net | 4,866,511 | 4,656,617 | 4,908,499 |
| Intangible assets, net | 1,739,894 | 1,928,488 | 2,055,044 |
| Construction in progress | 7,845,512 | 14,657,097 | 14,662,930 |
| | <u>\$ 138,239,644</u> | <u>\$ 139,341,900</u> | <u>\$ 139,614,345</u> |

MERCED IRRIGATION DISTRICT

Significant Capital Asset Activity – Overall, capital assets decreased by \$1.1 million in 2009 compared to \$0.3 million in 2008 due to reduced capital project spending in 2009 that was likewise seen in 2008 for both the electric system and the water distribution system. Although capital assets themselves increased by \$3.6 million, the annual depreciation expense incurred offset the increase. The District completed improvements to its water distribution system in 2009 in conjunction with State funded Highway improvements; the entire distribution system asset base including construction in progress decreased by \$0.4 million in 2009 compared to an increase of \$0.9 million in 2008.

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

Significant Long-term Debt Activity – Long-term debt decreased by \$1.9 million in 2009 as compared to an increase in 2008 by \$16.4 million which was a result of two 2008 refinancing bond issuances totaling \$29.1 million, and scheduled principal payments and refunds of \$12.9 million. At December 31, 2009 the District had long-term debt outstanding of \$121.7 million as compared to \$123.6 million in 2008 and \$107.2 million in 2007. The current amount is comprised of \$121.3 million of revenue bonds, certificates of participation and capital appreciation certificates of participation, and \$0.4 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 \$1.5 million as compared to a decrease of \$0.3 million in 2008. This corresponds with the decrease in the District’s capital related debt which offsets this value. The balance of net assets is comprised of \$13.8 million of restricted net assets which are subject to external restrictions on their use, and \$28.0 million of unrestricted net assets. The District’s assets exceeded liabilities by \$80.9 million. The District’s net assets invested in capital assets for 2008 decreased by \$0.3 million from 2007 corresponding with reflected decrease in capital assets in 2008. Capital assets are not liquid nor are they available for future spending but have been acquired over time and through their utilization, provide the District with revenue.

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

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

| | 2009 | 2008 | 2007 |
|---|---------------|---------------|---------------|
| Operating revenue | \$ 76,277,057 | \$ 71,491,256 | \$ 68,946,462 |
| Operating expense | 73,038,270 | 71,932,653 | 66,795,790 |
| Net income from operations | 3,238,787 | (441,397) | 2,150,672 |
| Non-operating revenue (expense) | (1,760,514) | (794,137) | 141,558 |
| Net income before capital contributions | 1,478,273 | (1,235,534) | 2,292,230 |
| Capital contributions | 692,152 | 1,254,288 | 3,819,348 |
| Change in net assets | 2,170,425 | 18,754 | 6,111,578 |
| Net assets, beginning of year | 78,768,620 | 78,749,866 | 72,638,288 |
| Net assets, end of year | \$ 80,939,045 | \$ 78,768,620 | \$ 78,749,866 |

MERCED IRRIGATION DISTRICT

Net income from operations of \$3.2 million increased from \$0.4 million net loss for 2008. The \$3.6 million dollar increase was primarily due to electric sales revenue and revenue for the reimbursement of the hydroelectric project operational costs. The \$2.5 million decrease in 2008 from 2007 was due primarily to increased water distribution costs associated with increased groundwater pumping and decreased surface water sales as a result of dry year water conditions statewide. In 2009, net non-operating expense of \$1.8 million is the result of non-operating revenue of \$3.6 million offset by interest expense of \$5.4 million. Capital contribution revenue of \$0.7 million is comprised of non-cash developer contributions and third-party cash proceeds used for capital projects. The decrease in capital contribution revenue of \$0.6 million in 2009 is due to decreased developer-constructed electric infrastructure and the continued completion of state funded highway projects that resulted in irrigation infrastructure improvements compared to 2008.

Economic Factors and Rates

In 2009, The District reduced the 1.2 cent electric rate surcharge from 2008 by 0.4 cents effective June 1, 2009 which reduced tariff rates by an average of 3.1%. After a run-up in power prices in early to mid-2008, market prices began to decline and continued to decline in 2009. The District maintained its risk management program with the goal of reducing price volatility and providing rate certainty for its customers. Due to the economic downturn in the region and state, the District saw a significant reduction in customers' usage in 2009. In spite of adding approximately 63 meters in 2009, primarily commercial, the District's electric load declined by almost a percent from 2008.

In 2009, despite the state and the region experiencing the third year of a drought that started in 2007, the District received adequate water to its reservoirs allowing for a regular irrigation season which ended the need for drought related curtailments as were needed in 2008. This resulted in decreased groundwater pumping and associated costs and increased overall water sales. The District continues to manage its water resources through cost reduction measures, water conservation and efficiency improvement measures, and potential water rate increases. In 2009, the District successfully completed a Proposition 218 process for the increase of water rates. Those increases can be implemented at the discretion of the Board of Directors.

Request for Information

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

BASIC FINANCIAL STATEMENTS

MERCED IRRIGATION DISTRICT

BALANCE SHEETS

December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| CAPITAL ASSETS, NET | \$ 138,239,644 | \$ 139,341,900 |
| OTHER NONCURRENT ASSETS | | |
| Deferred relicense costs | 8,742,343 | 6,800,666 |
| Debt issuance costs | 4,485,761 | 4,828,991 |
| Regulatory costs for future recovery | 2,320,722 | 773,029 |
| TOTAL OTHER NONCURRENT ASSETS | <u>15,548,826</u> | <u>12,402,686</u> |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 26,670,904 | 24,617,901 |
| Accounts receivable, net | 6,220,977 | 5,957,295 |
| Due from other governmental agencies | 2,008,038 | 1,762,669 |
| Accrued interest and taxes receivable | 1,181,736 | 1,227,764 |
| Inventory | 4,524,820 | 4,615,283 |
| Prepaid expenses and other current assets | 1,318,509 | 943,698 |
| Restricted cash and cash equivalents | 30,369,545 | 34,317,529 |
| Derivative financial instruments | (6,244,138) | (12,724,729) |
| TOTAL CURRENT ASSETS | <u>66,050,391</u> | <u>60,717,410</u> |
| TOTAL ASSETS | <u>\$ 219,838,861</u> | <u>\$ 212,461,996</u> |

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------|-----------------------|
| LIABILITIES AND NET ASSETS | | |
| LONG-TERM LIABILITIES | | |
| Long-term debt | \$ 121,676,264 | \$ 123,632,935 |
| Accrued compensated absences | 1,408,199 | 1,352,210 |
| Accrued postemployment benefits | <u>1,662,007</u> | <u>1,759,388</u> |
| TOTAL LONG-TERM LIABILITIES | <u>124,746,470</u> | <u>126,744,533</u> |
| OTHER LIABILITIES | | |
| Deferred public purpose program revenues | 2,223,237 | 2,552,678 |
| Deferred power cost reductions | 800,000 | 1,100,000 |
| Deferred water transfer revenue | 3,200,000 | 3,200,000 |
| Deposits | <u>1,141,270</u> | <u>1,655,629</u> |
| TOTAL OTHER LIABILITIES | <u>7,364,507</u> | <u>8,508,307</u> |
| CURRENT LIABILITIES | | |
| Accounts payable | 1,752,117 | 1,002,452 |
| Accrued permission fees | 987,741 | 899,812 |
| Accrued power purchase expense | 3,045,140 | 2,658,903 |
| Other accrued expenses | 964,401 | 535,252 |
| Deferred revenue | 1,208,618 | 1,054,237 |
| Accrued interest payable | 1,335,584 | 1,390,067 |
| Deferred credit - unrealized loss on swap contracts | (6,244,138) | (12,724,729) |
| Current portion of long-term debt | <u>3,739,376</u> | <u>3,624,542</u> |
| TOTAL CURRENT LIABILITIES | <u>6,788,839</u> | <u>(1,559,464)</u> |
| TOTAL LIABILITIES | 138,899,816 | 133,693,376 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 39,111,893 | 37,589,323 |
| Restricted | 13,831,119 | 15,563,378 |
| Unrestricted | <u>27,996,033</u> | <u>25,615,919</u> |
| TOTAL NET ASSETS | <u>80,939,045</u> | <u>78,768,620</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 219,838,861</u> | <u>\$ 212,461,996</u> |

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

MERCED IRRIGATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

For the years ended December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| OPERATING REVENUES | | |
| Electric sales and services | \$ 53,177,365 | \$ 50,215,471 |
| Water sales and services | 8,891,757 | 8,919,508 |
| Hydroelectric sales and services | 7,470,082 | 6,114,517 |
| Water transfers | 5,056,833 | 4,648,428 |
| Recreation fees | 1,672,795 | 1,564,837 |
| Storm drainage fees | 8,225 | 28,495 |
| TOTAL OPERATING REVENUES | <u>76,277,057</u> | <u>71,491,256</u> |
| OPERATING EXPENSES | | |
| Purchase of power | 34,783,043 | 33,327,494 |
| Water distribution | 13,807,527 | 15,405,911 |
| Electric transmission and distribution | 14,982,256 | 13,907,862 |
| Recreation | 1,920,704 | 1,861,015 |
| Storm drainage | 61,295 | 54,207 |
| Administrative and general | 2,047,216 | 2,190,498 |
| Depreciation and amortization | 5,436,229 | 5,185,666 |
| TOTAL OPERATING EXPENSES | <u>73,038,270</u> | <u>71,932,653</u> |
| NET INCOME (LOSS) FROM OPERATIONS | 3,238,787 | (441,397) |
| NON-OPERATING REVENUE (EXPENSES) | | |
| Property taxes | 2,363,313 | 2,565,214 |
| Interest income | 189,486 | 1,201,133 |
| Other non-operating income | 956,220 | 493,127 |
| Gain on disposal of capital assets | 92,141 | 373,361 |
| Interest expense | (5,361,674) | (5,426,972) |
| TOTAL NON-OPERATING (EXPENSES) REVENUES | <u>(1,760,514)</u> | <u>(794,137)</u> |
| NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | 1,478,273 | (1,235,534) |
| CAPITAL CONTRIBUTIONS | 692,152 | 1,254,288 |
| TOTAL CAPITAL CONTRIBUTIONS | <u>692,152</u> | <u>1,254,288</u> |
| CHANGE IN NET ASSETS | 2,170,425 | 18,754 |
| Net assets at beginning of year | <u>78,768,620</u> | <u>78,749,866</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 80,939,045</u> | <u>\$ 78,768,620</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, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | \$ 75,270,190 | \$ 77,171,436 |
| Cash paid to suppliers for goods and services | (55,090,793) | (57,036,583) |
| Cash paid to employees for services | <u>(11,873,834)</u> | <u>(11,383,184)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 8,305,563 | 8,751,669 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Property taxes received | 2,366,624 | 2,556,310 |
| Relicense costs incurred | (1,777,329) | (1,609,533) |
| Proceeds from issuance of debt | | 17,387,071 |
| Issuance costs paid | (1,899) | (155,426) |
| Interest payments on long term debt | | (30,533) |
| Other income/expenses | <u>938,923</u> | <u>493,127</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 1,526,319 | 18,641,016 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (3,484,644) | (4,284,882) |
| Proceeds from sale of equipment | 116,934 | 409,538 |
| Reimbursements received for capital assets | 244,801 | 1,028,321 |
| Principal payments on long-term debt | (3,628,647) | (2,523,708) |
| Proceeds from issuance of debt | | 683,143 |
| Issuance costs paid | (1,518) | (38,435) |
| Interest payments on long-term debt | <u>(5,205,992)</u> | <u>(5,075,677)</u> |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (11,959,066) | (9,801,700) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received on investments | <u>232,203</u> | <u>1,285,688</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>232,203</u> | <u>1,285,688</u> |
| (DECREASE) INCREASE IN CASH | (1,894,981) | 18,876,673 |
| Cash and cash equivalents at beginning of year | <u>58,935,430</u> | <u>40,058,757</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 57,040,449</u> | <u>\$ 58,935,430</u> |
| Cash and cash equivalents consist of the following: | | |
| Unrestricted | \$ 26,670,904 | \$ 24,617,901 |
| Restricted | <u>30,369,545</u> | <u>34,317,529</u> |
| | <u>\$ 57,040,449</u> | <u>\$ 58,935,430</u> |

(Continued)

MERCED IRRIGATION DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the years ended December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Net income from operations | \$ 3,238,787 | \$ (441,397) |
| Adjustments to reconcile net income from operations to net cash used for operating activities: | | |
| Depreciation and amortization | 5,436,229 | 5,185,666 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (263,682) | 1,597,399 |
| Due from other governmental agencies | (279,244) | 3,558,146 |
| Inventory | 90,463 | (292,025) |
| Prepaid expenses and other current assets | (374,811) | (65,311) |
| Accounts payable | 603,576 | (910,727) |
| Accrued permission fees | 87,929 | 65,522 |
| Accrued power purchase expense | 386,237 | (49,096) |
| Other accrued expenses | 410,890 | (211,204) |
| Deferred revenue | 154,381 | (533,785) |
| Deferred power cost reductions | (300,000) | (400,000) |
| Deposits | (514,359) | 727,380 |
| Deferred public purpose program revenues | (329,441) | 331,040 |
| Accrued postemployment benefits | (97,381) | 72,766 |
| Accrued compensated absences | 55,989 | 117,295 |
| | <u>\$ 8,305,563</u> | <u>\$ 8,751,669</u> |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | |
| Receipt of contributed electric system assets from developers | \$ 527,475 | \$ 306,087 |
| Change in derivative financial instruments | \$ 6,480,591 | \$ (11,599,701) |

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

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2009 and 2008

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, 2009 and 2008

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

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

Reclassifications: Certain reclassifications have been made to 2008 balances to agree to the 2009 presentation. These reclassifications had no effect on the 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, 2009 and 2008

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 future years. The power supply cost reduction was deferred in accordance with SFAS 71 for the benefit of future customer rate stabilization and is recorded as deferred power cost reductions on the Balance Sheet. At December 31, 2009 and 2008, the deferred power cost reductions were \$800,000 and \$1,100,000, 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 future years. A portion of the excess revenue, \$4,600,000, was deferred in accordance with SFAS 71 for the benefit of future customer rate stabilization and is recorded as deferred water transfer revenue on the Balance Sheet. At December 31, 2009 and 2008, the deferred water revenues were \$3,200,000 and \$3,200,000, respectively.

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

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

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

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

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.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

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

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 \$76,000 at December 31, 2009 and \$38,000 at December 31, 2008.

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.

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.

New Pronouncements: Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of derivative financial instruments, is effective for the District's financial statements for the year ending December 31, 2010. The District is currently evaluating the impact of GASB No. 53 on their accounting and reporting procedures.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

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

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which becomes effective January 1, 2010, establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The District is currently analyzing the impact of the implementation of this Statement.

NOTE B – CASH AND INVESTMENTS

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

| | 2009 | 2008 |
|--------------------------------------|---------------|---------------|
| Cash and cash equivalents | \$ 26,670,904 | \$ 24,617,901 |
| Restricted cash and cash equivalents | 30,369,545 | 34,317,529 |
| Total cash and investments | \$ 57,040,449 | \$ 58,935,430 |

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

| | | |
|--------------------------------------|---------------|---------------|
| Cash on hand | \$ 3,120 | \$ 3,120 |
| Deposits with financial institutions | 19,296,176 | 17,350,531 |
| Total cash and deposits | 19,299,296 | 17,353,651 |
| Money market mutual funds | 29,177,878 | 31,396,025 |
| Counterparty pooled deposit | | 1,750,000 |
| Investments in LAIF | 8,563,275 | 8,435,754 |
| Total investments | 37,741,153 | 41,581,779 |
| Total cash and investments | \$ 57,040,449 | \$ 58,935,430 |

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, 2009, the District's permissible investments included the following instruments:

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE B – CASH AND INVESTMENTS (Continued)

| 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 | 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.

As of December 31, 2009, the District invested \$21,264,927 and \$7,912,951 in two money market funds, representing 56% and 21%, respectively of the District's investment balances. 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 |

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE B – CASH AND INVESTMENTS (Continued)

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

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

| | <u>Remaining Maturity (in Months)</u> | |
|-------------------------------|---------------------------------------|------------------------------|
| | <u>Total</u> | <u>12 Months or less</u> |
| Local Agency Investment Funds | \$ 7,371,609 | \$ 7,371,609 |
| Held by bond trustee: | | |
| Money Market Mutual Funds | 29,177,878 | 29,177,878 |
| Local Agency Investment Funds | 1,191,666 | 1,191,666 |
| | <u>\$ 37,741,153</u> | <u>\$ 37,741,153</u> |

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

| | <u>Minimum Legal Rating</u> | <u>Total</u> | | |
|-------------------------------|-------------------------------------|----------------------|----------------------|---------------------|
| | | <u>Total</u> | <u>AAA/Aaa</u> | <u>Unrated</u> |
| Local Agency Investment Funds | Unrated | \$ 7,371,609 | | \$ 7,371,609 |
| Held by bond trustee: | | | | |
| Money Market Mutual Funds | AAA/Aaa | 29,177,878 | \$ 29,177,878 | |
| Local Agency Investment Funds | Unrated | 1,191,666 | | 1,191,666 |
| | | <u>\$ 37,741,153</u> | <u>\$ 29,177,878</u> | <u>\$ 8,563,275</u> |

Concentration of Credit Risk: The investment policy of the District limits the amount that can be invested in any one issuer to the lesser of the amount stipulated by the California Government Code or 50% of total investments, with the exception of U.S. Treasury Obligations, U.S. Agency Securities, Money Market Mutual Funds and LAIF. As of December 31, 2009, the District had no individual investment that exceeded 5% of its total investments.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE B – CASH AND INVESTMENTS (Continued)

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

At December 31, 2009, the carrying amount of the District's deposits was \$19,296,176 and the balance in financial institutions was \$21,901,872. Of the balance in financial institutions, \$253,145 was covered by federal depository insurance and \$21,648,727 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

Investment in LAIF: 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 \$67,828,810,101 managed by the State Treasurer. Of that amount, 8.17% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2009 and 2008 are as follows:

| | Balance January 1, 2009 | Additions | Disposals | Transfers and Adjustments | Balance December 31, 2009 |
|--|-------------------------------|------------------------------|---------------------------|---------------------------------|---------------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 13,144,380 | | | | \$ 13,144,380 |
| Construction in progress | 14,657,094 | \$ 3,558,642 | | \$(10,370,224) | 7,845,512 |
| Total capital assets, not being depreciated | <u>27,801,474</u> | <u>3,558,642</u> | | <u>(10,370,224)</u> | <u>20,989,892</u> |
| Capital assets, being depreciated: | | | | | |
| Landscaping | 6,445,850 | | | 14,970 | 6,460,820 |
| Buildings and structures | 50,145,928 | 20,860 | | 381,145 | 50,547,933 |
| Water distribution system | 16,152,436 | 42,667 | | 5,789,723 | 21,984,826 |
| Electric transmission and distribution system | 79,542,555 | 6,444 | | 3,474,368 | 83,023,367 |
| Machinery and equipment | 9,287,405 | 6,532 | | 391,414 | 9,685,351 |
| Vehicles | 8,077,741 | 351,867 | \$ (386,718) | 318,604 | 8,361,494 |
| Intangible plant | 8,516,928 | 25,110 | | | 8,542,038 |
| Total capital assets being depreciated | <u>178,168,843</u> | <u>453,480</u> | <u>(386,718)</u> | <u>10,370,224</u> | <u>188,605,829</u> |
| Less accumulated depreciation for: | | | | | |
| Landscaping | (4,806,587) | (255,664) | | | (5,062,251) |
| Buildings and structures | (22,994,213) | (895,524) | | | (23,889,737) |
| Water distribution system | (4,721,180) | (571,292) | | | (5,292,472) |
| Electric transmission and distribution system | (14,809,470) | (2,319,669) | | | (17,129,139) |
| Machinery and equipment | (6,629,652) | (231,942) | | | (6,861,594) |
| Vehicles | (6,078,876) | (601,788) | 361,924 | | (6,318,740) |
| Intangible plant | (6,588,439) | (213,705) | | | (6,802,144) |
| Total accumulated depreciation | <u>(66,628,417)</u> | <u>(5,089,584)</u> | <u>361,924</u> | | <u>(71,356,077)</u> |
| Total capital assets being depreciated, net | <u>111,540,426</u> | <u>(4,636,104)</u> | <u>(24,794)</u> | <u>10,370,224</u> | <u>117,249,752</u> |
| CAPITAL ASSETS, NET | <u><u>\$ 139,341,900</u></u> | <u><u>\$ (1,077,462)</u></u> | <u><u>\$ (24,794)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 138,239,644</u></u> |

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE C – CAPITAL ASSETS (Continued)

| | Balance January 1, 2008 | Additions | Disposals | Transfers and Adjustments | Balance December 31, 2008 |
|--|-------------------------------|----------------------------|---------------------------|---------------------------------|---------------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 13,144,380 | | | | \$ 13,144,380 |
| Construction in progress | 14,662,930 | \$ 3,943,293 | | \$ (3,949,129) | 14,657,094 |
| Total capital assets, not being depreciated | <u>27,807,310</u> | <u>3,943,293</u> | | <u>(3,949,129)</u> | <u>27,801,474</u> |
| Capital assets, being depreciated: | | | | | |
| Landscaping | 6,446,704 | | \$ (854) | | 6,445,850 |
| Buildings and structures | 50,317,317 | 54,990 | (542,456) | 316,077 | 50,145,928 |
| Water distribution system | 15,453,812 | | (21,205) | 719,829 | 16,152,436 |
| Electric transmission and distribution system | 76,781,497 | 6,669 | (84,734) | 2,839,123 | 79,542,555 |
| Machinery and equipment | 9,411,592 | 19,874 | (218,161) | 74,100 | 9,287,405 |
| Vehicles | 7,851,472 | 481,659 | (255,390) | | 8,077,741 |
| Intangible plant | 8,432,444 | 84,484 | | | 8,516,928 |
| Total capital assets being depreciated | <u>174,694,838</u> | <u>647,676</u> | <u>(1,122,800)</u> | <u>3,949,129</u> | <u>178,168,843</u> |
| Less accumulated depreciation for: | | | | | |
| Landscaping | (4,551,445) | (255,996) | 854 | | (4,806,587) |
| Buildings and structures | (22,653,066) | (872,630) | 531,483 | | (22,994,213) |
| Water distribution system | (4,317,330) | (403,850) | | | (4,721,180) |
| Electric transmission and distribution system | (12,633,997) | (2,249,236) | 73,763 | | (14,809,470) |
| Machinery and equipment | (6,632,016) | (210,907) | 213,271 | | (6,629,652) |
| Vehicles | (5,722,549) | (602,379) | 246,052 | | (6,078,876) |
| Intangible plant | (6,377,400) | (232,243) | 21,204 | | (6,588,439) |
| Total accumulated depreciation | <u>(62,887,803)</u> | <u>(4,827,241)</u> | <u>1,086,627</u> | | <u>(66,628,417)</u> |
| Total capital assets being depreciated, net | <u>111,807,035</u> | <u>(4,179,565)</u> | <u>(36,173)</u> | <u>\$ 3,949,129</u> | <u>111,540,426</u> |
| CAPITAL ASSETS, NET | <u><u>\$ 139,614,345</u></u> | <u><u>\$ (236,272)</u></u> | <u><u>\$ (36,173)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 139,341,900</u></u> |

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

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, 2009 and 2008 are as follows:

| | Balance January 1, 2009 | Additions | Repayments | Balance December 31, 2009 | Due Within One Year |
|---|-------------------------------|------------------|-----------------------|---------------------------------|------------------------|
| Long-term debt: | | | | | |
| Merced River | | | | | |
| Development Bonds | \$ 8,265,000 | | \$ (1,315,000) | \$ 6,950,000 | \$ 1,365,000 |
| 2003 Revenue Certificates of Participation | 13,900,000 | | (230,000) | 13,670,000 | 240,000 |
| 2005 Electric System Refunding Revenue Bonds | 62,750,000 | | (1,115,000) | 61,635,000 | 1,155,000 |
| 2005 Revenue Certificates of Participation | 14,740,000 | | (275,000) | 14,465,000 | 285,000 |
| 2008 Water and Hydro Refunding Revenue Certificates of Participations | 6,335,000 | | (575,000) | 5,760,000 | 575,000 |
| 2008 Water and Hydro Capital Appreciation Revenue Certificates of Participations | 22,718,863 | | | 22,718,863 | |
| | <u>128,708,863</u> | | <u>(3,510,000)</u> | 125,198,863 | 3,620,000 |
| Capital lease | 543,079 | | (118,647) | 424,432 | 119,376 |
| | <u>129,251,942</u> | | <u>\$ (3,628,647)</u> | 125,623,295 | <u>\$ 3,739,376</u> |
| Add: | | | | | |
| Deferred amount on refunding | (4,126,029) | | | (3,797,372) | |
| Bond discounts | (316,956) | | | (290,945) | |
| Bond premiums | 1,675,491 | | | 1,559,940 | |
| Accretion of capital appreciation certificates | 773,029 | | | 2,320,722 | |
| Less: Current portion of Long-term debt | <u>(3,624,542)</u> | | | <u>(3,739,376)</u> | |
| Total long-term debt | <u>\$ 123,632,935</u> | | | <u>\$ 121,676,264</u> | |
| Accrued compensated absences | <u>\$ 1,352,210</u> | <u>\$ 55,989</u> | | <u>\$ 1,408,199</u> | |

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE D – LONG-TERM LIABILITIES (Continued)

| | Balance January 1, 2008 | Additions | Repayments | Balance December 31, 2008 | Due Within One Year |
|--|-------------------------------|-------------------|------------------------|---------------------------------|------------------------|
| Long-term debt: | | | | | |
| Merced River | | | | | |
| Development Bonds | \$ 9,535,000 | | \$ (1,270,000) | \$ 8,265,000 | \$ 1,315,000 |
| 1998 Note payable | 329,806 | | (329,806) | | |
| 2001 Certificates of Participation | 5,505,000 | | (5,505,000) | | |
| 2003 Revenue Certificates of Participations | 14,120,000 | | (220,000) | 13,900,000 | 230,000 |
| 2005 Electric System Refunding Revenue Bonds | 63,050,000 | | (300,000) | 62,750,000 | 1,115,000 |
| 2005 Revenue Certificates of Participations | 15,000,000 | | (260,000) | 14,740,000 | 275,000 |
| 2005 Warrants | 5,000,000 | | (5,000,000) | | |
| 2008 Water and Hydro Refunding Revenue Bonds Certificates of Participations | | \$ 6,335,000 | | 6,335,000 | 575,000 |
| 2008 Water and Hydro Capital Appreciation Revenue Certificates of Participations | | 22,718,863 | | 22,718,863 | |
| | <u>112,539,806</u> | <u>29,053,863</u> | <u>(12,884,806)</u> | <u>128,708,863</u> | <u>3,510,000</u> |
| Capital lease | 673,825 | | (130,746) | 543,079 | 114,542 |
| Total | 113,213,631 | | <u>\$ (13,015,552)</u> | 129,251,942 | <u>\$ 3,624,542</u> |
| Add: | | | | | |
| Deferred amount on refunding | (4,202,906) | | | (4,126,029) | |
| Bond discounts | (354,333) | | | (316,956) | |
| Bond premiums | 1,816,755 | | | 1,675,491 | |
| Accretion of capital appreciation certificates | | | | 773,029 | |
| Less: Current portion of Long-term debt | <u>(3,278,797)</u> | | | <u>(3,624,542)</u> | |
| Total long-term debt | <u>\$ 107,194,350</u> | | | <u>\$ 123,632,935</u> | |
| Accrued compensated absences | <u>\$ 1,234,915</u> | <u>\$ 117,295</u> | | <u>\$ 1,352,210</u> | |

Long-Term Debt: Long-term debt consists of the following at December 31, 2009:

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

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE D – LONG-TERM LIABILITIES (Continued)

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 \$808,188 are due on January 1 and July 1 through July 1, 2014.

2003 Revenue Certificates of Participation (Electric System Project): On March 1, 2003, the District issued 2003 Revenue Certificates of Participation in the amount of \$15,000,000. The proceeds were used to finance the cost of certain improvements to the electric system. The Certificates are secured by a lien on the District's electric system net revenues. Interest rates range from 4.50% to 5.70%. Principal payments ranging from \$240,000 to \$945,000 are due annually on September 1 through September 1, 2036. Interest payments ranging from \$26,933 to \$380,478 are due semi-annually on March 1 and September 1 through September 1, 2036. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

2005 Electric System Refunding Revenue Bonds: On November 10, 2005, the District issued 2005 Electric System Refunding Revenue Bonds in the amount of \$63,050,000. Proceeds from these bonds were used to advance refund the District's 2001 Electric System Refunding Revenue Bonds and the 2002 Revenue Certificate of Participation. The Bonds are secured by a lien on the District's electric system net revenues. Interest rates range from 3.45% to 5.75%. Principal payments ranging from \$1,155,000 to \$4,045,000 are due annually on September 1 through September 1, 2036. Interest payments ranging from \$106,181 to \$1,553,434, 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 3.45% to 5.25%. Principal payments ranging from \$285,000 to \$950,000 are due annually on September 1 through September 1, 2036. Interest payments ranging from \$24,938 to \$356,713 are due semi-annually on March 1, and September 1, through September 1, 2036. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

2008 A Refunding Revenue Certificates of Participation (Water and Hydroelectric System Projects): On June 24, 2008, the District issued 2008 Refunding Revenue Certificates of Participation in the amount of \$6,335,000. Proceeds were used to advance refund the District's 2001 Certificates of Participation (Water Utility Facilities Improvements). The certificates are secured by a lien on the District's Water Operations and Hydroelectric net revenues. Interest rates range from 3% to 4.625%. Principal payments ranging from \$435,000 to \$600,000 are due annually, starting on September 1, 2009 through September 1, 2020. Interest payments ranging from \$13,875 to \$114,523 are due semi-annually on March 1, and September 1 through September 1, 2020. The District is required to maintain a ratio of water operation net revenues to debt service of 120% until 2014 and a ratio of water operations and hydroelectric net revenue to debt service of 125% thereafter.

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

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

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. A final principal payment of \$319,535 was paid on 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 ranged from 3.60% to 4.75%. These bonds were advance refunded by the 2008 Refunding Revenue Certificates of Participation as of June 24, 2008.

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 was due July 1, 2009. These warrants were advance refunded by the 2008 Capital Appreciation Revenue Certificates of Participation issued on June 24, 2008.

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

| Year Ended December 31, | Principal | Interest | Total |
|-------------------------|-----------------------|-----------------------|-----------------------|
| 2010 | \$ 3,620,000 | \$ 5,058,261 | \$ 8,678,261 |
| 2011 | 3,730,000 | 4,928,876 | 8,658,876 |
| 2012 | 3,705,000 | 4,791,674 | 8,496,674 |
| 2013 | 3,880,000 | 4,625,405 | 8,505,405 |
| 2014 | 3,635,000 | 4,449,505 | 8,084,505 |
| 2015-2019 | 22,259,260 | 26,533,057 | 48,792,317 |
| 2020-2024 | 21,086,369 | 25,195,103 | 46,281,472 |
| 2025-2029 | 22,843,442 | 22,811,777 | 45,655,219 |
| 2030-2034 | 27,143,788 | 18,507,236 | 45,651,024 |
| 2035-2038 | 13,296,004 | 10,708,343 | 24,004,347 |
| Total | <u>\$ 125,198,863</u> | <u>\$ 127,609,237</u> | <u>\$ 252,808,100</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 \$168,950,964. Principal and interest paid for the current year and total electric customer net revenues were \$6,257,469 and \$7,855,561, respectively.

The District has pledged future water operations and hydroelectric system revenues, net of specified operating expenses, to repay \$6,335,000 of Revenue Refunding Certificates of Participation issued in June 2008, and \$22,718,863 of Capital Appreciation Revenue Certificates of Participation issued in June 2008. Proceeds from the certificates provided financing for improvements to the water system and relicensing of the hydroelectric facility. The certificates are payable solely from water operations and hydroelectric net revenues and are payable through September 2038. Annual principal and interest payments on the certificates are expected to require approximately

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE D – LONG-TERM LIABILITIES (Continued)

80% of net revenues. The total principal and interest remaining to be paid on the certificates is \$76,203,638. Principal and interest paid for the current year and total water customer net revenues were \$867,133 and \$2,336,755, respectively.

Capital Lease: The District’s capital lease represents the present value of the sublease payments related to the electric distribution system and related facilities at the former Castle Air Force Base. The interest rate used to calculate the present value of the future minimum sublease payments is 4%. Payments on this sublease represent 7.5% of gross revenues received by the District from the sale of electric services to customers of the District in the Castle area and are due through 2013, at which time ownership of the electric distribution system will be transferred to the District.

The following is a schedule of the future minimum lease payments required under capital leases and the present value of the net minimum lease payments at December 31, 2009:

| | |
|---|--------------------------|
| 2010 | \$ 134,181 |
| 2011 | 134,181 |
| 2012 | 134,181 |
| 2013 | <u>51,853</u> |
| Total minimum lease payments | 454,396 |
| Less: Amount representing interest | <u>(29,964)</u> |
| Present value of minimum lease payments | <u><u>\$ 424,432</u></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. At December 31, 2009 and 2008, the District had no arbitrage liability.

Refundings: In June 2008, the District issued the 2008 A Refunding Revenue Certificates of Participation in the amount of \$6,335,000 with an average interest rate of 4.47%, to refund \$5,552,732 of the 2001 Certificates of Participation with an average interest rate of 4.65%. The net proceeds from this issuance were deposited into an irrevocable trust to provide for all future debt service payments for the 2001 Certificates of Participation. As a result, the 2001 Certificates of Participation are considered defeased and the liability for these certificates has been removed from the District’s financial statements.

The District completed the advance refunding to reduce its total debt service payments through 2011. The net economic loss (difference between the present value of the old and new debt service payments) of the 2008 A Refunding Revenue Certificates of Participation is \$23,926. The advance refunding resulted in differences between the reacquisition price and the net carrying amount of the outstanding debt of \$271,108 at December 31, 2008, net of accumulated amortization. This deferred amount on refunding, reported in the accompanying financial statements as a reduction in long-term debt, is being charged to operations over 13 years using the bonds-outstanding method.

In June 2008, the District issued the 2008 B Capital Appreciation Revenue Certificates of Participation in the amount of \$22,718,863 with an average interest of 6.64%, to refund \$5,106,792 of the 2005 Warrants with an interest rate of 4%. The net proceeds from this issuance were deposited into an irrevocable trust to provide for all future debt service payments for the 2005 Warrants. As a result, the 2005 Warrants are considered defeased and the liability for this bond has been removed from the District’s financial statements.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE D – LONG-TERM LIABILITIES (Continued)

The 2008 Capital Appreciation Revenue Certificates of Participation were issued to refinance the 2005 Warrants which mature in 2009 and to acquire additional funds to continue financing the costs associated with the relicensing of the District's 1964 Merced River Development Project. The advance refunding resulted in differences between the reacquisition price and the net carrying amount of the outstanding debt of \$22,890 at December 31, 2008, net of accumulated amortization. This deferred amount on refunding, reported in the accompanying financial statements as a reduction in long-term debt, is being charged to operations over 31 years using the bonds-outstanding method.

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 (WAPA), and Iberdrola Renewables, Inc. (Iberdrola). Furthermore, TID provides wheeling, interconnection and ancillary services to the District under an interconnection agreement. The major agreements are described as follows:

Turlock Irrigation District: In 2009, the District amended and extended its current power supply agreement with TID from the period of January 1, 2006 through April 2009, out through January 31, 2010. The amendment contained several changes effective April 1, 2009, including an increase in the transaction charge from \$.75 to \$1.00 per megawatt-hour and a decrease in the control area services fee from \$4.00 to \$3.50 per megawatt-hour, \$1.50 of which was allowed to be paid through a deferred payment account. In addition, the contract extension amendment was changed to include a congestion and loss charge calculation methodology, to reflect the California Independent System Operator's implementation of nodal pricing through the Market Redesign and Technology Upgrade (MRTU) initiative on April 1, 2009.

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 \$4.50 per megawatt-hour, effective April 1, 2009. The District's purchases of power from TID in 2009 and 2008 totaled \$16,299,570 and \$33,735,882, respectively.

Western Area Power Administration: WAPA markets power from the Central Valley Project (CVP) and Washoe Project. The District began operating under the base resource contract on January 1, 2005. This contract provides for the District to receive .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 \$46.77 and \$36.18 per megawatt hour in 2009 and 2008, respectively. The District's purchases in 2009 and 2008 totaled \$365,156 and \$360,636, respectively.

Iberdrola Renewables Inc.: The District entered into a 25-year power supply agreement with Iberdrola in 2003 for energy generated by a wind energy project. This is a non-firm power supply contract to purchase 5 megawatts of installed capacity, which is expected to generate 16,000 megawatt-hours of energy annually for the District at a fixed price of \$54.95 per megawatt-hour. The District entered into a subsequent agreement to sell this wind energy back to Iberdrola from January 1, 2006, through January 1, 2008. In 2007, this agreement was extended through January 1, 2009, and in 2008 it was further extended through March 31, 2009. The price per megawatt-hour through March 31, 2009 was 90% of the Powerdex hourly index at North Path 15 minus \$1.00. In March of 2009, in order to update the original agreement for the implementation of MRTU, an amendment was executed utilizing the contract for difference methodology. Since after MRTU the wind energy would be physically delivered into the California Independent System Operator (CAISO) rather than to the District, this method negated the need for a sellback agreement. Effective April 1, 2010, under the new amendment, the District receives a credit on their invoice for the amount of energy delivered to the CAISO times the locational marginal price applicable to the CAISO pricing node for the wind project. The District's purchases in 2009 and 2008 totaled \$675,658 and \$720,395, respectively. The District's sales back to Iberdrola in 2009 and 2008 totaled \$307,461 and \$820,039, respectively.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE E – ENERGY SUPPLY PURCHASES AND COMMITMENTS (Continued)

The District purchases fixed-for-floating swap agreements to manage market price risk under its TID agreement. All ongoing electricity swap agreements settled against the North Path 15 daily price index until April 1, 2009, when MRTU was implemented. Effective April 1, 2009, all ongoing electricity swap agreements settle against the newly-created North Path 15 Existing Zone Generation Trading Hub’s day-ahead locational marginal price index. The North Path 15 index was selected to link the swap agreements to the cost of electricity under the TID agreement. The District’s objective in executing swap agreements is to fix its costs for power supply and hedge market price exposure. The net amount of electricity swap settlements paid in 2009 and 2008 were \$18,418,317 and \$(236,813), respectively. In 2009, the District recovered \$1,750,000 in assurance deposits which had been provided to one of the counterparties as collateral for swap agreements as of December 31, 2008.

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, 2009 and 2008. The estimated fair values of the District’s swap agreements as of December 31 are as follows:

| | 2009 | | | 2008 | | |
|-------------------|--------------------------|---------------|---------------|--------------------------|---------------|----------------|
| | Fixed Payment Obligation | Fair Value | Net Loss | Fixed Payment Obligation | Fair Value | Net Loss |
| Electricity Swaps | \$ 64,075,190 | \$ 57,831,052 | \$(6,244,138) | \$ 45,991,490 | \$ 33,266,761 | \$(12,724,729) |

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:

| | 2009 | 2008 |
|--|----------------------|----------------------|
| Debt service payments | \$ 11,887,019 | \$ 11,733,444 |
| Recreation plan operations and maintenance | 1,100,490 | 1,136,345 |
| Mariposa County water rights settlement | 837,107 | 937,086 |
| Recreation plan future stage construction | 6,503 | 6,503 |
| Power swap pledged collateral | | 1,750,000 |
| | <u>\$ 13,831,119</u> | <u>\$ 15,563,378</u> |

The restrictions are for the following:

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

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

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE F – NET ASSETS (Continued)

Restricted for Mariposa County water rights settlement represents unspent State of California grant proceeds restricted for the remaining unpaid Mariposa County water rights commitment.

Restricted for recreation plan future stage construction represents unspent State of California grant proceeds restricted for the third stage of onshore recreation facilities improvements, including fishing access sites, at Lake McClure and Lake McSwain in accordance with the District’s recreation plan.

Restricted for power swap pledged collateral represents cash on deposit with Constellation Power Source for collateralization of power swaps.

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>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| Rate stabilization | \$ 5,400,000 | \$ 5,400,000 |
| Electric Services working capital reserve | 5,500,000 | 5,500,000 |
| Livingston Water Conservation projects | 1,133,400 | |
| Parks capital project reserve | 160,000 | 160,000 |
| Surface/groundwater optimization projects | <u>98,800</u> | |
| Total | <u>\$ 12,292,200</u> | <u>\$ 11,060,000</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 Livingston Water Conservation projects represents the amount set aside for future Livingston water improvement projects.

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

Designated for surface/groundwater optimization projects represents the amount set aside for future surface/groundwater capital projects.

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 Q Street, Sacramento, CA 95811.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE G – EMPLOYEES’ RETIREMENT PLAN (Continued)

Funding Policy: Active plan members are required to contribute 7% of their annual covered salary, which the District contributes on behalf of District employees and for their account. Contributions made by the District on behalf of the employees were \$755,316 and \$620,281 for the years ended December 31, 2009 and 2008, respectively. The District is required to contribute at an actuarially determined rate; the rate for January 1 to June 30, 2009 was 11.48% and for July 1 to December 31, 2009 was 11.20%. 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, 2009 and 2008, the District incurred an annual pension cost of \$1,224,135 and \$1,196,992, respectively. The required contribution was determined as part of the June 30, 2006 and 2007 actuarial valuations using entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary in duration of service ranging from 3.25% to 14.45% for miscellaneous members and (c) 3.25% payroll growth adjustment. Both (a) and (b) include an inflation component of 3%. The actuarial value of the plan’s assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period (smoothed market value). The plan’s unfunded liability is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2007 was 24 years.

Three-Year Trend Information for the District

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage Of APC Contributed |
|--------------------|---------------------------|-------------------------------|
| December 31, 2007 | \$ 1,194,927 | 100% |
| December 31, 2008 | 1,196,992 | 100% |
| December 31, 2009 | 1,224,135 | 100% |

Required Supplementary Information - Funded Status of Plan

| Actuarial Valuation Date | Entry Age Actuarial Accrued Liability | Actuarial Assets Value | (Excess Assets) Unfunded Liability | Funded Ratio | Covered Payroll | Unfunded Liability as a % of Covered Payroll |
|--------------------------|---------------------------------------|------------------------|------------------------------------|--------------|-----------------|--|
| 6/30/2006 | \$ 39,366,263 | \$ 31,839,500 | \$ 7,526,763 | 80.88% | \$ 9,413,485 | 80.00% |
| 6/30/2007 | 42,986,190 | 35,170,081 | 7,816,109 | 81.80% | 10,284,234 | 76.00% |
| 6/30/2008 | 46,096,379 | 38,324,737 | 7,771,642 | 83.14% | 10,628,855 | 73.10% |

NOTE H – POSTEMPLOYMENT HEALTH CARE BENEFITS

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

Funding Policy: The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements. For 2009 and 2008, the District contributed \$178,023 and \$142,460, respectively, to the plan, which

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE H – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

represents 95% and 94%, respectively, of the cost of current year premiums for eligible retired plan members and their spouses. In 2009, plan members receiving benefits contributed \$10,325, or approximately 5% of the total premiums, through their required contribution of \$90 for spouse coverage and \$120 for family coverage. In 2008, plan members contributed \$9,270, or approximately 6%.

Annual OPEB Cost and Net OPEB Obligation: The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for 2009 and 2008, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the OPEB plan:

| | 2009 | 2008 |
|--|--------------|--------------|
| Annual required contribution | \$ 139,665 | \$ 215,226 |
| Interest on net OPEB obligation | 87,968 | |
| 2008 Annual required contribution adjustment | (70,982) | |
| Annual required contribution adjustment | (76,009) | |
| Contributions made (premium payments made) | (178,023) | (142,460) |
| Change in net OPEB obligation | (97,381) | 72,766 |
| Net OPEB obligation, beginning of year | 1,759,388 | 1,686,622 |
| Net OPEB obligation, end of year | \$ 1,662,007 | \$ 1,759,388 |

The District had an OPEB obligation of \$1,686,622 as of the implementation of GASB Statement No. 45, which was less than the actuarial accrued liability of \$1,873,768. However, the OPEB obligation will be increased prospectively to the actuarial accrued liability amount. The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and 2009 were as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|---------------------|--|---------------------------|
| December 31, 2008 | \$ 144,244 | 98.76% | \$ 1,759,388 |
| December 31, 2009 | \$ 151,625 | 117.00% | \$ 1,662,007 |

Funded Status and Funding Progress: As of January 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,873,768, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$11,162,000, and the ratio of the UAAL to the covered payroll was 16.79%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE H – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

In the January 1, 2008 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses), which is based on the employer’s own investments. The annual healthcare-cost trend rates are as follows: for medical premiums, 10% initially, reduced by 1% decrements to an ultimate rate of 5% after six years; for dental premiums, 7% every other year, with the first assumed July 1, 2010; for vision insurance premiums, 5% every third year, with the next increase in January, 2009. Life insurance premiums are not assumed to change from current levels. The assumptions also include a 3.25% annual increase in covered payroll and a 3% inflationary factor. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2008, was 30 years.

Required Supplementary Information
Schedule of Funding Progress for the Retiree Health Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL)– Simplified Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|--------------------------------------|--------------------------|---------------------------|---|
| January 1, 2008 | \$ - | \$ 1,873,768 | \$ 1,873,768 | \$ - | \$ 11,162,000 | 16.79% |

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 | Commercial Insurance | Deductible |
|---|--------------|-------------------------|-------------------|
| General and Auto Liability (Includes public officials liability) | \$ 1,000,000 | \$ 60,000,000 | 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 |

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE I – INSURANCE (Continued)

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 \$23,536 and \$25,327 at December 31, 2009 and 2008, 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 regarding stream flow from the Merced River. 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.

NOTE K – LINE OF CREDIT

The District has a \$7,000,000 line of credit that expires on January 15, 2011. The interest rate on this line of credit is the prime rate set by the lender. At December 31, 2009 and 2008, no amounts were outstanding on this line of credit.

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 and the Water Utility Facility Improvement Funds.

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE L – DISCLOSURE OF SEGMENT INFORMATION (Continued)

| | 2009 | | 2008 | |
|--|-------------------|------------------|-------------------|------------------|
| | Electric Services | Water Operations | Electric Services | Water Operations |
| CONDENSED BALANCE SHEET | | | | |
| Assets: | | | | |
| Capital assets | \$ 71,519,047 | \$ 33,400,656 | \$ 72,643,088 | \$ 34,014,696 |
| Other assets | 4,069,211 | 76,350 | 4,370,636 | 92,128 |
| Interfund receivables | | 4,283,501 | | 182,010 |
| Current assets | 21,529,972 | 23,363,186 | 14,552,996 | 19,290,652 |
| Total assets | 97,118,230 | 61,123,693 | 91,566,720 | 53,579,486 |
| Liabilities: | | | | |
| Long-term and other liabilities | 90,353,339 | 7,147,951 | 93,083,889 | 7,797,638 |
| Interfund payables | | (3,542,817) | | (11,145,382) |
| Other current liabilities | 1,471,401 | 4,938,147 | (5,868,333) | 4,899,961 |
| Total liabilities | 91,824,740 | 8,543,281 | 87,215,556 | 1,552,217 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | (15,164,955) | 27,906,907 | (14,826,349) | 27,996,556 |
| Restricted | 7,835,526 | 1,467,599 | 9,143,131 | 1,583,885 |
| Unrestricted | 12,622,919 | 23,205,906 | 10,034,382 | 22,446,828 |
| Total net assets | \$ 5,293,490 | \$ 52,580,412 | \$ 4,351,164 | \$ 52,027,269 |
| CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS | | | | |
| Operating revenues (pledged against bonds) | \$ 53,177,365 | \$ 13,948,590 | \$ 50,215,471 | \$ 13,567,936 |
| Depreciation and amortization expense | (2,690,553) | (1,563,204) | (2,688,737) | (1,349,029) |
| Other operating expenses | (45,532,367) | (14,979,969) | (43,552,979) | (17,724,616) |
| Operating income | 4,954,445 | (2,594,583) | 3,973,755 | (5,505,709) |
| Non-operating revenues (expenses): | | | | |
| Property taxes | | 2,118,270 | | 2,328,056 |
| Other non-operating revenues | 181,391 | 887,508 | 266,140 | 1,577,198 |
| Interest expense | (4,789,060) | (326,971) | (4,786,687) | (247,783) |
| Capital contributions | 546,800 | 106,561 | 578,848 | 675,307 |
| Transfers in | 429,919 | 861,850 | 532,041 | 3,173,866 |
| Transfers out | (381,169) | (499,492) | (1,570,218) | (1,435,371) |
| Change in net assets | 942,326 | 553,143 | (1,006,121) | 565,564 |
| Beginning net assets | 4,351,164 | 52,027,269 | 5,357,285 | 51,461,705 |
| Ending net assets | \$ 5,293,490 | \$ 52,580,412 | \$ 4,351,164 | \$ 52,027,269 |

MERCED IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

December 31, 2009 and 2008

NOTE L – DISCLOSURE OF SEGMENT INFORMATION (Continued)

| | 2009 | | 2008 | |
|--|----------------------|----------------------|----------------------|----------------------|
| | Electric Services | Water Operations | Electric Services | Water Operations |
| CONDENSED STATEMENT OF CASH FLOWS | | | | |
| Net cash provided (used) by: | | | | |
| Operating activities | \$ 7,217,446 | \$ 2,414,006 | \$ 11,962,463 | \$ (9,415,705) |
| Noncapital financing activities | 103,918 | 2,627,006 | 56,750 | 2,396,664 |
| Capital and related financing activities | (7,058,942) | (1,572,186) | (6,854,925) | (304,583) |
| Investing activities | 69,395 | 136,187 | 240,337 | 865,750 |
| Net increase (decrease) | 331,817 | 3,605,013 | 5,404,625 | (6,457,874) |
| Beginning cash and cash equivalents | 17,000,718 | 15,631,188 | 11,596,093 | 22,089,062 |
| Ending cash and cash equivalents | <u>\$ 17,332,535</u> | <u>\$ 19,236,201</u> | <u>\$ 17,000,718</u> | <u>\$ 15,631,188</u> |

SUPPLEMENTAL INFORMATION

MERCED IRRIGATION DISTRICT

BALANCE SHEETS BY FUND

December 31, 2009

| | Electric Services | Water Utility | Hydroelectric | Parks | Drainage Improvement District #1 |
|---|----------------------|------------------|---------------|--------------|--|
| ASSETS | | | | | |
| CAPITAL ASSETS, NET | \$ 71,519,047 | \$ 33,386,928 | \$ 28,468,604 | \$ 3,283,383 | \$ 1,104,094 |
| OTHER NONCURRENT ASSETS | | | | | |
| Deferred relicense costs | | | | | |
| Debt issuance costs | 4,069,211 | 76,350 | | | |
| Regulatory costs for future recovery | | | | | |
| TOTAL OTHER NONCURRENT ASSETS | 4,069,211 | 76,350 | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 8,227,316 | 17,768,602 | | 920 | 673,566 |
| Accounts receivable, net | 5,440,360 | 714,588 | 1,295 | 43,152 | 2,465 |
| Due from other governmental agencies | 260,193 | 492,091 | 36,635 | 46,249 | |
| Accrued interest and taxes receivable | 2,049 | 1,072,668 | 11 | 9 | 106,850 |
| Inventory | 4,268,267 | 256,553 | | | |
| Prepaid expenses and other current assets | 470,706 | 202,940 | 107,133 | 42,803 | 8,205 |
| Due from other funds | | | | | |
| Restricted cash and cash equivalents | 9,105,219 | 1,467,599 | 1,142,082 | 1,106,993 | |
| Derivative financial instruments | (6,244,138) | | | | |
| TOTAL CURRENT ASSETS | 21,529,972 | 21,975,041 | 1,287,156 | 1,240,126 | 791,086 |
| TOTAL ASSETS | \$ 97,118,230 | \$ 55,438,319 | \$ 29,755,760 | \$ 4,523,509 | \$ 1,895,180 |

| San Joaquin River Agreement Fund | Water Transfers | Water Utility Facility Improvement Fund | Federal Energy Regulatory Commission Fund | General Operations | Eliminating Entries | Totals |
|---|---------------------|---|---|-----------------------|------------------------|-----------------------|
| | | \$ 13,728 | | \$ 463,860 | | \$ 138,239,644 |
| | | | \$ 8,742,343 | | | 8,742,343 |
| | | | 340,200 | | | 4,485,761 |
| | | | 2,320,722 | | | 2,320,722 |
| | | | 11,403,265 | | | 15,548,826 |
| | | | | 500 | | 26,670,904 |
| | | | | 19,117 | | 6,220,977 |
| \$ 1,172,870 | | | | | | 2,008,038 |
| | | | 149 | | | 1,181,736 |
| | | | | | | 4,524,820 |
| 215,275 | | | | 271,447 | | 1,318,509 |
| 24,262,662 | \$ 5,660,812 | | | | \$ (29,923,474) | |
| | | | 17,547,652 | | | 30,369,545 |
| | | | | | | (6,244,138) |
| <u>25,650,807</u> | <u>5,660,812</u> | | <u>17,547,801</u> | <u>291,064</u> | <u>(29,923,474)</u> | <u>66,050,391</u> |
| <u>\$ 25,650,807</u> | <u>\$ 5,660,812</u> | <u>\$ 13,728</u> | <u>\$ 28,951,066</u> | <u>\$ 754,924</u> | <u>\$ (29,923,474)</u> | <u>\$ 219,838,861</u> |

MERCED IRRIGATION DISTRICT

BALANCE SHEETS BY FUND (Continued)

December 31, 2009

| | Electric Services | Water Utility | Hydroelectric | Parks | Drainage Improvement District #1 |
|---|----------------------|----------------------|----------------------|---------------------|--|
| LIABILITIES AND NET ASSETS | | | | | |
| LONG-TERM LIABILITIES | | | | | |
| Long-term debt | \$ 86,154,319 | \$ 4,918,749 | \$ 5,585,000 | | |
| Accrued compensated absences | 214,426 | 796,963 | 124,559 | \$ 141,304 | \$ 5,471 |
| Accrued postemployment benefits | 257,536 | 885,230 | 148,944 | 183,641 | 3,804 |
| TOTAL LONG-TERM LIABILITIES | 86,626,281 | 6,600,942 | 5,858,503 | 324,945 | 9,275 |
| OTHER LIABILITIES | | | | | |
| Deferred public purpose program revenues | 2,223,237 | | | | |
| Deferred power cost reductions | 800,000 | | | | |
| Deferred water transfer revenue | | | | | |
| Deposits | 703,821 | 429,879 | | 3,046 | |
| TOTAL OTHER LIABILITIES | 3,727,058 | 429,879 | | 3,046 | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | 285,161 | 327,397 | 745,272 | 38,477 | 687 |
| Accrued permission fees | 987,741 | | | | |
| Accrued power purchase expense | 3,045,140 | | | | |
| Other accrued expenses | 452,808 | 265,568 | 88,940 | 28,036 | 1,191 |
| Deferred revenue | | 471,345 | 737,273 | | |
| Accrued interest payable | 1,145,313 | 59,958 | 130,313 | | |
| Due to other funds | | 22,036,892 | 1,151,583 | 4,747,914 | |
| Deferred credit - unrealized (loss) gain on swap contracts | (6,244,138) | | | | |
| Current portion of long-term debt | 1,799,376 | 575,000 | 1,365,000 | | |
| TOTAL CURRENT LIABILITIES | 1,471,401 | 23,736,160 | 4,218,381 | 4,814,427 | 1,878 |
| TOTAL LIABILITIES | 91,824,740 | 30,766,981 | 10,076,884 | 5,142,418 | 11,153 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | (15,164,955) | 27,893,179 | 21,518,604 | 3,283,383 | 1,104,094 |
| Restricted | 7,835,526 | 1,467,599 | 1,142,082 | 1,106,993 | |
| Unrestricted | 12,622,919 | (4,689,440) | (2,981,810) | (5,009,285) | 779,933 |
| TOTAL NET ASSETS | 5,293,490 | 24,671,338 | 19,678,876 | (618,909) | 1,884,027 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 97,118,230 | \$ 55,438,319 | \$ 29,755,760 | \$ 4,523,509 | \$ 1,895,180 |

| San Joaquin River Agreement Fund | Water Transfers | Water Utility Facility Improvement Fund | Federal Energy Regulatory Commission Fund | General Operations | Eliminating Entries | Totals |
|---|---------------------|---|---|-----------------------|------------------------|-----------------------|
| | | | \$ 25,018,196 | | | \$ 121,676,264 |
| \$ 44,560 | | | | \$ 80,916 | | 1,408,199 |
| 72,570 | | | | 110,282 | | 1,662,007 |
| <u>117,130</u> | | | <u>25,018,196</u> | <u>191,198</u> | | <u>124,746,470</u> |
| | | | | | | 2,223,237 |
| | | | | | | 800,000 |
| | \$ 3,200,000 | | | | | 3,200,000 |
| | | | | 4,524 | | 1,141,270 |
| | <u>3,200,000</u> | | | <u>4,524</u> | | <u>7,364,507</u> |
| 22,644 | | | 242,138 | 90,341 | | 1,752,117 |
| | | | | | | 987,741 |
| | | | | | | 3,045,140 |
| 16,235 | | | 35,304 | 76,319 | | 964,401 |
| | | | | | | 1,208,618 |
| | | | | | | 1,335,584 |
| | | \$ 60,264 | 1,491,951 | 434,870 | \$ (29,923,474) | |
| | | | | | | (6,244,138) |
| | | | | | | 3,739,376 |
| <u>38,879</u> | | <u>60,264</u> | <u>1,769,393</u> | <u>601,530</u> | <u>(29,923,474)</u> | <u>6,788,839</u> |
| 156,009 | 3,200,000 | 60,264 | 26,787,589 | 797,252 | (29,923,474) | 138,899,816 |
| | | 13,728 | | 463,860 | | 39,111,893 |
| | | | 2,278,919 | | | 13,831,119 |
| <u>25,494,798</u> | <u>2,460,812</u> | <u>(60,264)</u> | <u>(115,442)</u> | <u>(506,188)</u> | | <u>27,996,033</u> |
| <u>25,494,798</u> | <u>2,460,812</u> | <u>(46,536)</u> | <u>2,163,477</u> | <u>(42,328)</u> | | <u>80,939,045</u> |
| <u>\$ 25,650,807</u> | <u>\$ 5,660,812</u> | <u>\$ 13,728</u> | <u>\$ 28,951,066</u> | <u>\$ 754,924</u> | <u>\$ (29,923,474)</u> | <u>\$ 219,838,861</u> |

MERCED IRRIGATION DISTRICT

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

For the year ended December 31, 2009

| | Electric Services | Water Utility | Hydroelectric | Parks | Drainage Improvement District #1 |
|---|----------------------|----------------------|----------------------|---------------------|--|
| OPERATING REVENUES | | | | | |
| Electric sales and services | \$ 53,177,365 | | | | |
| Water sales and services | | \$ 8,891,757 | | | |
| Hydroelectric sales and services | | | \$ 7,470,082 | | |
| Water transfers | | | | | |
| Recreation fees | | | | \$ 1,672,795 | |
| Rental income | | | | | |
| Administrative services | | | | | |
| Storm drainage fees | | | | | \$ 8,225 |
| TOTAL OPERATING REVENUES | 53,177,365 | 8,891,757 | 7,470,082 | 1,672,795 | 8,225 |
| OPERATING EXPENSES | | | | | |
| Purchase of power | 34,783,043 | | | | |
| Water distribution | | 12,852,872 | | | |
| Electric transmission and distribution | 10,121,306 | | 4,878,682 | | |
| Recreation | | | | 1,920,704 | |
| Storm drainage | | | | | 61,295 |
| Administrative and general | 628,018 | 997,070 | 352,430 | | 126,951 |
| Depreciation and amortization | 2,690,553 | 1,563,204 | 729,677 | 342,152 | 35,343 |
| TOTAL OPERATING EXPENSES | 48,222,920 | 15,413,146 | 5,960,789 | 2,262,856 | 223,589 |
| NET INCOME (LOSS) FROM OPERATIONS | 4,954,445 | (6,521,389) | 1,509,293 | (590,061) | (215,364) |
| NON-OPERATING REVENUE (EXPENSES) | | | | | |
| Property taxes | | 2,118,270 | | | 245,043 |
| Interest income | 63,373 | 100,010 | 149 | 357 | 1,671 |
| Other non-operating income | 103,918 | 741,801 | 65,414 | 26,866 | 302 |
| Gain on disposal of capital assets | 14,100 | 41,649 | 29,401 | 6,991 | |
| Interest expense | (4,789,060) | (326,971) | (273,094) | | |
| Transfers in | 429,919 | 861,850 | | | 889 |
| Transfers out | (381,169) | (405,034) | (14,906) | (85,924) | (70,862) |
| TOTAL NON-OPERATING REVENUE (EXPENSES) | (4,558,919) | 3,131,575 | (193,036) | (51,710) | 177,043 |
| NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | 395,526 | (3,389,814) | 1,316,257 | (641,771) | (38,321) |
| CAPITAL CONTRIBUTIONS | 546,800 | 106,561 | | 38,791 | |
| CHANGE IN NET ASSETS | 942,326 | (3,283,253) | 1,316,257 | (602,980) | (38,321) |
| Net assets at beginning of year | 4,351,164 | 27,954,591 | 18,362,619 | (15,929) | 1,922,348 |
| Fund Balance Transfer | | | | | |
| Net assets at end of year | \$ 5,293,490 | \$ 24,671,338 | \$ 19,678,876 | \$ (618,909) | \$ 1,884,027 |

| San Joaquin River Agreement Fund | Water Transfers | Water Utility Facility Improvement Fund | Federal Energy Regulatory Commission Fund | General Operations | Eliminating Entries | Totals |
|---|--------------------|---|---|-----------------------|------------------------|---------------|
| | | | | | | \$ 53,177,365 |
| | | | | | | 8,891,757 |
| | | | | | | 7,470,082 |
| \$ 5,056,833 | | | | | | 5,056,833 |
| | | | | | | 1,672,795 |
| | | | | \$ 2,505,319 | \$ (2,505,319) | |
| | | | | | | 8,225 |
| 5,056,833 | | | | 2,505,319 | (2,505,319) | 76,277,057 |
| | | | | | | 34,783,043 |
| 954,655 | | | \$ 5,268 | | (23,000) | 13,807,527 |
| | | | | | | 14,982,256 |
| | | | | | | 1,920,704 |
| | | | | | | 61,295 |
| 175,372 | | | | 2,272,694 | (2,505,319) | 2,047,216 |
| | | | 27,926 | 47,374 | | 5,436,229 |
| 1,130,027 | | | 33,194 | 2,320,068 | (2,528,319) | 73,038,270 |
| | | | | | | |
| 3,926,806 | | | (33,194) | 185,251 | 23,000 | 3,238,787 |
| | | | | | | 2,363,313 |
| 1,053 | | | 5,743 | 17,130 | | 189,486 |
| 2,995 | | | | 37,924 | (23,000) | 956,220 |
| | | | | | | 92,141 |
| | | | 27,451 | | | (5,361,674) |
| | | | | 102 | (1,292,760) | |
| (94,458) | | | | (240,407) | 1,292,760 | |
| | | | | | | |
| (90,410) | | | 33,194 | (185,251) | (23,000) | (1,760,514) |
| | | | | | | |
| 3,836,396 | | | | | | 1,478,273 |
| | | | | | | 692,152 |
| | | | | | | |
| 3,836,396 | | | | | | 2,170,425 |
| | | | | | | |
| 21,658,402 | \$ 2,460,812 | \$ (46,536) | 2,163,477 | (42,328) | | 78,768,620 |
| | | | | | | |
| \$ 25,494,798 | \$ 2,460,812 | \$ (46,536) | \$ 2,163,477 | \$ (42,328) | \$ - | \$ 80,939,045 |

MERCED IRRIGATION DISTRICT

SCHEDULE OF CASH FLOWS BY FUND

December 31, 2009

| | Electric Services | Water Utility | Hydroelectric | Parks | Drainage Improvement District #1 |
|--|----------------------|----------------------|---------------------|---------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Cash receipts from customers | \$ 52,319,054 | \$ 8,628,959 | \$ 7,630,368 | \$ 1,658,254 | \$ 6,788 |
| Cash paid to suppliers for goods and services | (43,404,880) | (9,049,913) | (3,821,071) | (914,541) | (278,358) |
| Cash paid to employees for services | (2,373,496) | (5,918,689) | (1,247,754) | (978,329) | (30,474) |
| Cash receipts/payments to other funds | 676,768 | 9,278,792 | (305,906) | 345,463 | 316,348 |
| NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES | 7,217,446 | 2,939,149 | 2,255,637 | 110,847 | 14,304 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Non-operating interfund transfers | | (239,024) | | | |
| Property taxes received | | 2,121,234 | | | 245,390 |
| Relicense costs incurred | | | | | |
| Proceeds from issuance of debt | | | | | |
| Issuance costs paid | | | | | |
| Interest payments on long-term debt | | | | | |
| Other income/expenses | 103,918 | 741,801 | 65,414 | (19,383) | 302 |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | 103,918 | 2,624,011 | 65,414 | (19,383) | 245,692 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Acquisition and construction of capital assets | (751,912) | (916,261) | (955,444) | (179,644) | (284,556) |
| Proceeds from the sale of equipment | 28,400 | 42,725 | 33,276 | 12,533 | |
| Reimbursements received for capital assets | 19,325 | 186,685 | | 38,791 | |
| Principal payments on long-term debt | (1,738,647) | (575,000) | (1,315,000) | | |
| Proceeds from issuance of debt | | | | | |
| Issuance costs paid | | (1,518) | | | |
| Interest payments on long-term debt | (4,616,108) | (292,134) | (297,750) | | |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (7,058,942) | (1,555,503) | (2,534,918) | (128,320) | (284,556) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest received on investments | 69,395 | 135,134 | 237 | 441 | 1,671 |
| NET CASH PROVIDED BY INVESTING | 69,395 | 135,134 | 237 | 441 | 1,671 |
| INCREASE (DECREASE) IN CASH | 331,817 | 4,142,791 | (213,630) | (36,415) | (22,889) |
| Cash and cash equivalents at beginning of year | 17,000,718 | 15,093,410 | 1,355,712 | 1,144,328 | 696,455 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 17,332,535 | \$ 19,236,201 | \$ 1,142,082 | \$ 1,107,913 | \$ 673,566 |

| San Joaquin River Agreement Fund | Water Transfers | Water Utility Facility Improvement Fund | Federal Energy Regulatory Commission Fund | General Operations | Eliminating Entries | Totals |
|---|--------------------|---|---|-----------------------|------------------------|---------------|
| \$ 4,821,166 | | | | \$ 2,496,377 | \$ (2,290,776) | \$ 75,270,190 |
| (1,034,602) | | | \$ (5,268) | (1,175,777) | 4,593,617 | (55,090,793) |
| (307,813) | | | | (1,017,279) | | (11,873,834) |
| (4,020,577) | | \$ 16,683 | | (4,027,730) | (2,279,841) | |
| (541,826) | | 16,683 | (5,268) | (3,724,409) | 23,000 | 8,305,563 |
| | | | 239,024 | | | 2,366,624 |
| | | | (1,777,329) | | | (1,777,329) |
| | | | (1,899) | | | (1,899) |
| 2,995 | | | 28,952 | 37,924 | (23,000) | 938,923 |
| 2,995 | | | (1,511,252) | 37,924 | (23,000) | 1,526,319 |
| | | (16,683) | | (380,144) | | (3,484,644) |
| | | | | | | 116,934 |
| | | | | | | 244,801 |
| | | | | | | (3,628,647) |
| | | | | | | (1,518) |
| | | | | | | (5,205,992) |
| | | (16,683) | | (380,144) | | (11,959,066) |
| 1,053 | | | 7,142 | 17,130 | | 232,203 |
| 1,053 | | | 7,142 | 17,130 | | 232,203 |
| (537,778) | | | (1,509,378) | (4,049,499) | | (1,894,981) |
| 537,778 | | | 19,057,030 | 4,049,999 | | 58,935,430 |
| \$ - | \$ - | \$ - | \$ 17,547,652 | \$ 500 | \$ - | \$ 57,040,449 |

MERCED IRRIGATION DISTRICT

SCHEDULE OF CASH FLOWS BY FUND (Continued)

December 31, 2009

| | 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 | \$ 4,954,445 | \$ (6,521,389) | \$ 1,509,293 | \$ (590,061) | \$ (215,364) |
| Adjustments to reconcile net income (loss) from operations to net cash provided (used) for operating activities: | | | | | |
| Depreciation and amortization | 2,690,553 | 1,563,204 | 729,677 | 342,152 | 35,343 |
| Transfers to/from other funds | 48,750 | 670,728 | (14,906) | (85,924) | (69,973) |
| Changes in operating assets and liabilities: | | | | | |
| Accounts receivable | 45,161 | (274,465) | 1,706 | (16,366) | (1,437) |
| Due from other governmental agencies | (37,966) | 31,024 | (36,635) | | |
| Inventory | 149,420 | (58,957) | | | |
| Prepaid expenses and other current assets | (327,205) | (4,204) | 8,742 | (1,351) | 1,444 |
| Accounts payable | 61,763 | (22,231) | 472,590 | 13,084 | 527 |
| Accrued permission fees | 87,929 | | | | |
| Accrued power purchase expense | 386,237 | | | | |
| Other accrued expenses | 272,435 | 119,993 | 812 | 3,516 | 1,495 |
| Deferred revenue | | (40,834) | 195,215 | | |
| Deferred power cost reduction | (300,000) | | | | |
| Due to/from other funds | | 7,610,994 | (643,430) | 431,387 | 259,370 |
| Deposits | (536,065) | 21,477 | | 1,825 | |
| Deferred public purpose program revenues | (329,441) | | | | |
| Accrued postemployment benefits | 27,691 | (150,419) | 11,014 | 3,702 | 452 |
| Accrued compensated absences | 23,739 | (5,772) | 21,559 | 8,883 | 2,447 |
| | <u>\$ 7,217,446</u> | <u>\$ 2,939,149</u> | <u>\$ 2,255,637</u> | <u>\$ 110,847</u> | <u>\$ 14,304</u> |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | | | | |
| Receipt of contributed electric system assets from developers | \$ 527,475 | | | | |
| Change in derivative financial instruments | \$ 6,480,591 | | | | |

| San Joaquin River Agreement Fund | Water Transfers | Water Utility Facility Improvement Fund | Federal Energy Regulatory Commission Fund | General Operations | Eliminating Entries | Totals |
|---|--------------------|---|---|-----------------------|------------------------|---------------------|
| \$ 3,926,806 | | | \$ (33,194) | \$ 185,251 | \$ 23,000 | \$ 3,238,787 |
| (94,458) | | \$ 25,112 | 27,926 | 47,374 | | 5,436,229 |
| | | | | (240,305) | | 239,024 |
| (235,667) | | | | (7,346) | (10,935) | (263,682) |
| (43,464) | | | | (8,773) | | (279,244) |
| (5,164) | | | | 72,072 | 10,935 | 90,463 |
| | | | | | | (374,811) |
| | | | | | | 603,576 |
| | | | | | | 87,929 |
| 2,194 | | | | 10,445 | | 386,237 |
| | | | | | | 410,890 |
| | | | | | | 154,381 |
| (4,101,491) | | (8,429) | | (3,787,425) | | (300,000) |
| | | | | (1,596) | | (239,024) |
| | | | | | | (514,359) |
| | | | | | | (329,441) |
| 118 | | | | 10,061 | | (97,381) |
| 9,300 | | | | (4,167) | | 55,989 |
| <u>\$ (541,826)</u> | <u>\$ -</u> | <u>\$ 16,683</u> | <u>\$ (5,268)</u> | <u>\$ (3,724,409)</u> | <u>\$ 23,000</u> | <u>\$ 8,305,563</u> |

\$ 527,475

\$ 6,480,591

MERCED IRRIGATION DISTRICT

2009 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP'S AND BONDS

ELECTRIC SERVICES

| | |
|--|---------------------|
| Net Income | \$ 942,326 |
| Add Back: | |
| Depreciation and amortization expense | 2,690,553 |
| Bond interest expense | 4,769,482 |
| Less: | |
| Capital contribution revenue | <u>(546,800)</u> |
| Reconciled net revenue | <u>\$ 7,855,561</u> |
| 2009 COP debt service related to outstanding COP's and Bonds | \$ 6,257,469 |
| Debt service coverage | 126% |
| Required debt service coverage | 125% |

MERCED IRRIGATION DISTRICT

2009 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP'S AND BONDS

WATER OPERATIONS

| | |
|--|---------------------|
| Net Income | \$ 553,141 |
| Add Back: | |
| Depreciation and amortization expense | 1,563,204 |
| Bond interest expense | 326,971 |
| Less: | |
| Capital contribution revenue | <u>(106,561)</u> |
| Reconciled net revenue | <u>\$ 2,336,755</u> |
| 2009 COP debt service related to outstanding COP's | \$ 867,133 |
| Debt service coverage | 269% |
| Required debt service coverage | 120% |