

MOSSES ADAMS

**IMPERIAL IRRIGATION DISTRICT  
INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007**



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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Imperial Irrigation District  
Imperial, California

We have audited the accompanying statements of net assets of Imperial Irrigation District (District), Water, Energy and Total Funds as of December 31, 2008 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying statements of net assets of Imperial Irrigation District as of December 31, 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended were audited by other auditors whose report dated May 9, 2008 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Imperial Irrigation District's Water, Energy and Total Funds as of December 31, 2008 and the results of its operations and its 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 preceding the financial statements 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 required supplementary information. However, we did not audit the information and express no opinion on it.

*Moss Adams LLP*

Portland, Oregon  
July 21, 2009

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis of the Imperial Irrigation District (the District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2008 and 2007 and December 2007 and 2006. This management discussion and analysis should be read in conjunction with the District's financial statements and accompanying notes, which follow this section.

### **Background**

Situated in the agriculturally rich and culturally diverse Imperial Valley, the Imperial Irrigation District delivers water to over 500,000 acres of highly productive farmland in southernmost Southern California. Established by a vote of the people in 1911, IID is the nation's largest irrigation district and serves one of the fastest-growing regions in the West.

The District's electrical division has become the sixth largest consumer-owned utility in the state and is widely regarded as an economic catalyst in the Imperial and Coachella valleys, where it serves more than 144,000 residential, commercial and industrial customers. With a combined work force of approximately 1,390 employees, the District is leading the way in irrigation efficiency and innovation, while expanding the range of value-added energy services it provides to this dynamic desert corridor.

### **Setting of Rates**

The District's Board of Directors (Board) has full and independent authority to establish the rates charged for all District services. The District is not subject to retail rate regulation by any State or federal regulatory body, and is empowered to set retail rates effective at any time. Changes in retail rates require formal action, after public hearing, by the Board.

### **Introduction to the Basic Financial Statements**

The District's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB) as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements contradict GASB pronouncements.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation", in 2007 the Board approved recovery through the Energy Cost Adjustment (ECA) certain fuel and energy expenses including any under or over recovery of costs that result in the deferral of expense or revenue recognition. For 2008, the Board has opted not to recover any losses through the ECA.

### **Using this Financial Report**

This annual financial report consists of management's discussion and analysis and the financial statements, including notes to the financial statements. The annual financial report reflects the activities of the District primarily funded through the sale of energy, transmission, and distribution services to its retail and wholesale electric customers, as well as irrigation and municipal water sales. Separate accounting records are maintained for the District's Water and Energy operations. Each of these functions is reported as an enterprise fund in the accompanying financial statements.

## Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows

The financial statements provide both short-term and long-term information about the District's financial status. The Statement of Net Assets include all of the District's assets and liabilities, using the accrual method of accounting, as well as which assets can be utilized for general purposes, and which assets are restricted as a result of bond covenants and other commitments. The Statements of Revenues, Expenses and Changes in Net Assets report all of the District's revenues and expenses during the periods indicated. The Statements of Cash Flows report the cash provided and used by operating activities as well as other cash sources such as investment income and debt financing, and other cash uses such as payments for bond principal and capital additions and betterments.

### Condensed Financial Position Information

The following combined electric and water condensed financial information provides an overview of the District's financial position for the fiscal years ended December 31, 2008, 2007, and 2006:

	2008	2007	2006
<b>Assets:</b>			
Utility plant, net	\$ 1,642,967,090	\$ 1,457,079,455	\$ 1,236,736,241
Other assets	550,724,234	568,441,037	451,964,592
Total assets	<u>2,193,691,324</u>	<u>2,025,520,492</u>	<u>1,688,700,833</u>
<b>Liabilities:</b>			
Long-term liabilities	557,876,183	368,115,537	377,846,992
Other liabilities	119,098,291	306,014,252	111,333,742
Total liabilities	<u>676,974,474</u>	<u>674,129,789</u>	<u>489,180,734</u>
<b>Net assets:</b>			
Invested in utility plant, net of related debt	1,256,955,808	1,006,865,196	987,823,523
Restricted for:			
Debt service	51,438,320	29,276,521	37,766,338
Other purposes	53,585,718	83,690,033	33,362,154
Unrestricted	154,737,004	231,558,953	140,568,088
Total net assets	<u>\$ 1,516,716,850</u>	<u>1,351,390,703</u>	<u>1,199,520,103</u>

### As of December 31, 2008:

#### *Net Assets*

Net assets, the difference between assets and liabilities, as of December 31, 2008 and 2007 were \$1,516,716,850 and \$1,351,390,703, respectively. Net assets increased by \$165.3 million or 12.2% due to a decrease of \$84 million of accounts receivable due from other agencies – All American Canal (AAC), and increases of \$21 million to Operating Cash, \$40 million to restricted cash, and \$186 million to utility plant, and offset by an increase of \$191 million in long-term debt service and a decrease of \$189 million in liabilities payable from restricted assets.

### ***Utility Plant***

Net utility plant, which is comprised of property, plant, and equipment, as of December 31, 2008 and 2007 was \$1,642,967,090 and \$1,457,079,455, respectively. Net Utility Plant increased by \$185.9 million or 12.8%. The increase for 2008 is primarily due to the construction of the Niland Gas Turbine Project and the lining of the AAC.

The increase is partially offset by higher depreciation associated with assets moved from construction in progress to utility plant in service.

### ***Other Assets***

Other assets, which consist of cash, investments, receivables, inventory, protection of water rights, customer deposits, and prepaid expenses, were \$550,724,324 and \$568,441,037 as of December 31, 2008 and 2007, respectively. Other assets decreased by \$17.7 million or 3.1% due primarily to changes in cash and customer receivables. Cash and investments increased by \$61.1 million in 2008 mainly due to the receipt of funds from the 2008A Refunding Revenue Bonds. Due to payments received from the Department of Water Resources (DWR) for the AAC lining, net receivables decreased by \$80.6 million and amounts payable from customers increased by \$5.8 million in 2008. Currently, billings are now being paid by SDCWA which advances the funds for payment of invoices. The District's prepaid pension obligation decreased by \$2.5 million in 2008 due to amortizing the prepayment evenly over the life of the pension bond. The District's investment in the protection of its water rights decreased by \$.9 million due to the accumulated amortization.

### ***Long-Term Liabilities***

Long-term liabilities as of December 31, 2008 and 2007 were \$557,876,183 and \$368,115,537, respectively. The increase of \$189.8 million in 2008 was due primarily to the additional debt for the 2008A Refunding Revenue Bonds of \$242.6 million, a decrease of \$56.4 million in the principal amounts of the Certificates of Participation and Bonds Payable, and an increase of \$11.6 million for accrued other post employee benefits (OPEB).

### ***Other Liabilities***

Other liabilities consist of accounts payable, accrued interest payable, accrued compensation, and liabilities payable from restricted assets. Other liabilities as of December 31, 2008 and 2007 were \$119,098,291 and \$306,014,252, respectively. A decrease of \$186.9 million in 2008 is largely due to the repayment of Commercial Paper (CP) of \$155.0 million and a decrease to the accounts payable other agencies of \$36.2 million.

### **As of December 31, 2007:**

#### ***Net Assets***

Total net assets as of December 31, 2007 and 2006 were \$1,351,390,703 and \$1,199,520,103, respectively. The increase of \$151.9 million consisted of \$84.3 million of accounts receivable due from agencies – All American Canal (AAC) and \$220.3 million increase to utility plant, offset by \$170 million for commercial paper and \$36.2 million for accounts payable other agencies.

### ***Utility Plant***

Net utility plant as of December 31, 2007 and 2006 was \$1,457,079,455 and \$1,236,736,241, respectively. The \$220.3 million increase is due primarily to the construction of the Niland Gas Turbine Project and the lining of the AAC.

### ***Other Assets***

Other Assets as of December 31, 2007 and 2006 were \$568,441,037 and \$451,964,592, respectively. The \$116.5 million increase was due primarily to changes in cash and customer receivables. The \$69 million increase in cash and investments was mainly due to \$61.9 million of CP proceeds available for construction, a \$9 million advance from San Diego County Water Authority (SDCWA), an increase of \$17.2 million in operating cash, offset by a decrease in self-insurance contingency of \$22 million. Net receivables increased by \$57.8 million due to the AAC Lining. The District's prepaid pension obligation decreased by \$2.5 million in 2007 due to the amortization of the prepayment evenly over the life of the pension bond. The District's investment in the protection of its water rights decreased by \$.9 million due to the accumulated amortization.

### ***Long-Term Liabilities***

Long-Term liabilities as of December 31, 2007 and 2006 were \$368,115,537 and \$377,846,992, respectively. The \$21.3 million decreased in 2007 due primarily to the payments on the principal amounts of the Certificates of Participation, Bonds Payable, and full payment of the installment sale.

### ***Other Liabilities***

Other Liabilities as of December 31, 2007 and 2006 were \$306,014,252 and \$111,333,742, respectively. The increase of \$194.7 million in 2007 is largely due to the issuance of Commercial Paper (CP) of \$170 million and an increase to the accounts payable other agencies of \$36.2 million.

## Summary of Operations and Changes in Net Assets

Increases in the District's net assets for fiscal years 2008, 2007, and 2006 were \$165.3 million, \$151.9 million, and \$108.5 million or 10.4%, 12.7%, and 11.0%, respectively. The table below summarizes the District's fiscal years 2008, 2007, and 2006.

	2008	2007	2006
Operating revenues:			
Water operating revenues	\$ 93,748,687	\$ 95,408,831	\$ 86,882,741
Power operating revenues	460,630,999	428,764,998	415,131,183
Total operating revenues	<u>554,379,686</u>	<u>524,173,829</u>	<u>502,013,924</u>
Operating expenses:			
Purchased power	207,871,575	179,045,339	167,379,294
Cost of fuel	78,173,834	84,250,765	88,688,093
Other power expenses	101,658,442	99,773,767	87,886,760
Other post employment benefits (OPEB)	9,145,662	7,846,549	
All-American Canal operations	6,982,853	7,184,644	6,766,006
Operation and maint.of irrigation systems and dams	66,664,196	74,085,032	59,304,843
General and administrative	17,347,982	18,972,458	18,425,651
Depreciation	56,661,073	53,937,832	49,900,627
Total operating expenses	<u>544,505,618</u>	<u>525,096,386</u>	<u>478,351,274</u>
Nonoperating revenues (expenses):			
Investment income	10,063,794	15,415,492	11,683,040
Interest expense	(17,608,523)	(15,726,364)	(16,634,318)
Net Gain on Sale of Land	4,353,524	19,029,308	24,747,307
Other income	4,540,010	4,667,433	4,171,828
Total nonoperating revenues (expenses)	<u>1,348,805</u>	<u>23,385,869</u>	<u>23,967,857</u>
Capital contributions	154,103,274	129,407,288	60,879,095
Increase in net assets	<u>165,326,147</u>	<u>151,870,600</u>	<u>108,509,602</u>
Total net assets, beginning of year as restated	1,351,390,703	1,199,520,103	1,091,010,501
Total net assets, end of year	<u>\$ 1,516,716,850</u>	<u>\$ 1,351,390,703</u>	<u>\$ 1,199,520,103</u>

**As of December 31, 2008:**

***Operating Revenues***

Total operating revenues were \$554,379,685 and \$524,173,829 as of December 31, 2008 and 2007, respectively. The increase of \$30.2 million or 5.7% was primarily due to an increase in the Energy Cost Adjustment (ECA) and an increase of 3,500 electrical customers. Water rates did not increase in 2008. The rates remained at \$17.00 per acre-foot for agriculture customers and \$68 per-acre foot for municipalities.

Electric base energy rates did not increase in 2008. ECA or Energy Cost Adjustment was \$40.00 per 1000 KWH from January 2008 through March 2008 and \$50.10 per 1000 KWH from April 2008 through December 2008. ECA averaged \$48.51 per 1000 KWH in 2008. La Quinta service area experienced a growth of 3.6% as opposed to a 1% growth in the Imperial Valley service area.

***Operating Expenses***

Operating expenses consist of salaries, benefits, purchased energy and fuel, administrative expenses and operations and maintenance costs. Total operating expenses (including depreciation) were \$544,505,618 and \$525,096,386 as of December 31, 2008 and 2007, respectively. The \$19.4 million or 3.7% increase is primarily due to an increase in purchase power expenses.

***Non-operating Revenues and Expenses***

Non-operating revenues consist of interest earnings and miscellaneous revenues. Total non-operating revenue was \$1,348,805 and \$23,385,869 as of December 31, 2008 and 2007, respectively. The \$22.0 million dollar decrease is primarily due to decreased sales of Western Farm lands and less interest income being earned on investments.

***Other Post Employment Benefits***

The District implemented the provisions of GASB 45 commencing with the District's 2007 Financial Statements. The District hired an actuary to calculate its unfunded liability for retired and vested employees as well as the Annual Required Contribution (ARC) assuming no changes in current plan vesting requirements and no change in the plan for current employees as they become eligible for medical retirement benefits under the current plan. The District estimates its Unfunded Accrued Liability at approximately \$160 million based on no changes to the plan for retirees and vesting requirements and benefits for current employees. The ARC under these assumptions is approximately \$15.7 million assuming no change in the current funding approach. This annual amount is an increase of approximately \$11 million over current pay-as-you-go funding for post employment health benefits. ARC is a measure of annual required contribution if the District would begin full funding on an actuarial basis. See note 13 to the basic financial statements for more detailed information regarding Other Post Employment Benefits.

***Capital Contributions***

Capital contributions are funds received from state, federal, and private developers that are for the construction and acquisition of capital assets. During the fiscal year ended December 31, 2008, capital contributions increased by \$24.7 million from the previous year, compared to an increase of \$68.5 million during 2007. The increases in both 2008 and 2007 were primarily due to reimbursements for the lining of the All American Canal.

## **Utility Plant and Debt Administration**

### ***Utility Plant***

Significant utility plant activity is found in four main areas: transmission, distribution, equipment, and projects requested by customers. Equipment consists of vehicles, heavy equipment (such as excavators), and computer software and hardware. Customer-requested projects range from relocation of facilities for Cal-trans to building infrastructure for new developments and new services for commercial and residential customers. Projects for customers are fully or partially reimbursed. See note 3 of notes to the basic financial statements for more detailed information regarding the District's utility plant.

### ***Long-Term Debt***

Total long-term debt was \$503,079,088 and \$324,430,075 as of December 31, 2008 and 2007, respectively. The increase of \$178.6 million 2008 was due to the new 2008A issue of Electric System Refunding Revenue Bonds in the amount of \$250 million, which includes the defeasement of \$43.9 million for the 1998 COP. The COP for 1993 is due to mature in 2009. See notes 4 through 9 and 15 to the basic financial statements for more detailed information regarding the District's long-term debt.

### **As of December 31, 2007:**

#### ***Operating Revenues***

Total operating revenues were \$524,173,829 and \$502,013,924 as of December 31, 2007 and 2006, respectively. The increase in 2007 was \$22.2 million or 4.4%. Water rates did not increase in 2007. The rates remained at \$17.00 per acre-foot for agriculture customers and \$68 per-acre foot for municipalities.

Electric base energy rates did not increase in 2007. The Energy Cost Adjustment (ECA) was \$49.00 per 1000 KWH from January 2007 through April 2007, \$50.30 per 1000 KWH from May 2007 through July 2007 and \$40.00 per 1000 KWH through the remainder of the year. ECA averaged \$45.60 per 1000 KWH in 2007 versus an average of \$46.68 per 1000 KWH in 2006. Electrical customers increased by 3,500 or 2.5%. Most of the growth occurred in the La Quinta service area opposed to the Imperial Valley service area.

#### ***Operating Expenses***

Operating expenses consist of salaries, benefits, purchased energy and fuel, administrative expenses and operations and maintenance costs. Total operating expenses were \$525,096,386 and \$478,351,274 as of December 31, 2007 and 2006, respectively. The increases of \$46.7 million or 9.8% in 2007 are primarily due to settlements with Trans-Canada, Cal-Energy, Coachella Valley Water District (CVWD) and implementation of other postemployment benefits.

#### ***Non-operating Revenues and Expenses***

Non-operating revenues and expenses consist of interest earnings and miscellaneous revenues. Total non-operating expenses were \$23,385,369 and \$23,967,857 as of December 31, 2007 and 2006, respectively. The 2007 decrease of \$.58 million is primarily due to change in cash available to invest.

### ***Other Post Employment Benefits***

The District implemented the provisions of GASB 45 commencing with the District's 2007 Financial Statements. The District hired an actuary to calculate its unfunded liability for retired and vested employees as well as the Annual Required Contribution (ARC) assuming no changes in current plan vesting requirements and no change in the plan for current employees as they become eligible for medical retirement benefits under the current plan. The District estimated its Unfunded Accrued Liability at approximately \$160 million based on no changes to the plan for retirees and vesting requirements and benefits for current employees. The ARC under these assumptions is approximately \$15.7 million assuming no change in the current funding approach. This annual amount is an increase of approximately \$11 million over current pay-as-you-go funding for post employment health benefits. ARC is a measure of annual required contribution if the District would begin full funding on an actuarial basis. See note 15 to the basic financial statements for more detailed information regarding Other Post Employment Benefits.

### ***Capital Contributions***

Capital contributions are funds received from state, federal, and private developers that are for the construction and acquisition of capital assets. Total capital contributions as of June 30, 2007 and 2006 were \$129,407,288 and \$60,879,095, respectively. The increase of \$68.5 million was primarily due to reimbursements for the lining of the All American Canal.

## **Utility Plant and Debt Administration**

### ***Utility Plant***

Significant utility plant activity is found in four main areas: transmission, distribution, equipment, and projects requested by customers. Equipment consists of vehicles, heavy equipment (such as excavators), and computer software and hardware. Customer requested projects range from relocation of facilities for Cal-trans to building infrastructure for new developments and new services for commercial and residential customers. Projects for customers are fully or partially reimbursed. Total utility plant, net was \$1,457,079,455 and \$1,236,736,241 as of December 31, 2007 and 2006, respectively.

### ***Long-Term Debt***

Total long-term debt was \$324,430,075 and \$347,546,049 as of December 31, 2007 and 2006, respectively. The District began to recognize the OPEB liability in 2007 for approximately \$12 million and will continue to recognize an incremental liability each year until an irrevocable trust account is set up and fully funded. The decrease in 2007 was due to principal payments made on the Certificates of Participation.

**IMPERIAL IRRIGATION DISTRICT  
STATEMENTS OF NET ASSETS**

Assets	2008			2007		
	Water	Energy	Total	Water	Energy	Total
Current assets:						
Operating cash	\$ 123,080,122	63,126,733	186,206,855	99,152,581	65,995,552	165,148,133
Receivables:						
Trade	8,444,448	49,015,326	57,459,774	6,648,705	39,270,786	45,919,491
Interest	870,278	1,851,845	2,722,122	995,364	2,118,105	3,113,469
Other	3,965,707	3,679,179	7,644,886	7,527,137	8,642,344	16,169,481
Due from other agencies	—	—	—	84,394,817	—	84,394,817
Total receivables	13,280,432	54,546,350	67,826,782	99,566,023	50,031,235	149,597,258
Less allowance for doubtful accounts	(1,377,116)	(6,300,179)	(7,677,295)	(1,895,770)	(6,896,238)	(8,792,008)
Net receivables	11,903,316	48,246,171	60,149,487	97,670,253	43,134,997	140,805,250
Inventory – materials and supplies	1,227,766	23,301,711	24,529,477	1,235,403	27,392,941	28,628,344
Prepaid expenses	1,451,363	2,304,128	3,755,491	(13,628)	2,471,486	2,457,858
Total current assets	137,662,567	136,978,743	274,641,310	198,044,609	138,994,976	337,039,585
Noncurrent assets:						
Cash and investments, restricted as to use:						
Debt service	17,224,526	44,386,165	61,610,691	17,581,040	20,411,540	37,992,580
Construction	35,981,776	52,123,485	88,105,261	12,037,609	53,401,076	65,438,685
Other	20,952,648	20,581,009	41,533,657	22,351,474	25,446,600	47,798,074
Total cash and investments, restricted as to use	74,158,950	117,090,658	191,249,608	51,970,123	99,259,216	151,229,339
Other restricted assets – amounts payable from customers	—	—	—	—	(5,896,850)	(5,896,850)
Utility plant:						
Utility plant, not being depreciated:						
Land and land rights	54,212,415	14,170,174	68,382,588	58,965,948	14,169,845	73,135,793
Construction in process	286,316,052	98,003,825	384,319,877	147,259,757	198,413,182	345,672,939
Utility plant, being depreciated	430,040,002	1,506,558,794	1,936,598,796	424,442,130	1,314,445,021	1,738,887,151
Total utility plant	770,568,468	1,618,732,793	2,389,301,262	630,667,835	1,527,028,048	2,157,695,883
Less accumulated depreciation	(149,563,824)	(596,770,348)	(746,334,172)	(139,111,627)	(561,504,801)	(700,616,428)
Total utility plant, net	621,004,645	1,021,962,445	1,642,967,090	491,556,208	965,523,247	1,457,079,455
Other assets:						
Prepaid pension obligation	26,901,563	28,550,759	55,452,322	28,096,661	29,819,780	57,916,441
Deferred charges	2,596,522	4,728,465	7,324,987	2,717,629	2,505,884	5,223,513
Protection of water rights	30,555,094	—	30,555,094	30,555,094	—	30,555,094
Less accumulated amortization	(8,499,087)	—	(8,499,087)	(7,626,085)	—	(7,626,085)
Total other assets	51,554,092	33,279,224	84,833,316	53,743,299	32,325,664	86,068,963
Total noncurrent assets	746,717,686	1,172,332,327	1,919,050,014	597,269,630	1,091,211,277	1,688,480,907
Total assets	\$ 884,380,253	\$ 1,309,311,071	\$ 2,193,691,324	\$ 795,314,239	\$ 1,230,206,253	\$ 2,025,520,492

**IMPERIAL IRRIGATION DISTRICT  
STATEMENTS OF NET ASSETS**

Liabilities and Net Assets	2008			2007		
	Water	Energy	Total	Water	Energy	Total
Current liabilities:						
Payable from nonrestricted assets:						
Accounts payable	\$ 17,962,263	21,488,289	39,450,552	\$ 6,318,213	39,508,279	45,826,491
Accrued interest payable	4,650,473	4,083,536	8,734,009	3,599,050	3,763,168	7,362,218
Accrued compensation and payroll taxes	2,130,616	3,242,652	5,373,268	1,877,362	2,587,251	4,464,613
Accrued vacation and sick leave	559,725	545,464	1,105,188	392,355	443,120	835,475
Self-insurance	1,919,520	3,794,903	5,714,423	1,370,113	2,354,928	3,725,041
Capital leases – current portion	898,327	1,844,262	2,742,589	1,260,004	2,320,843	3,580,848
Total payable from nonrestricted assets	<u>28,120,923</u>	<u>34,999,106</u>	<u>63,120,029</u>	<u>14,817,097</u>	<u>50,977,589</u>	<u>65,794,686</u>
Liabilities payable from restricted assets:						
Bonds payable – current portion	758,563	679,800	1,438,363	715,242	638,600	1,353,842
Certificates of Participation – current portion	2,945,000	14,475,000	17,420,000	2,135,000	14,195,000	16,330,000
Commerical paper	15,000,000	—	15,000,000	45,000,000	125,000,000	170,000,000
Accounts payable other agencies	—	—	—	36,184,922	—	36,184,922
Advances and deposits from customers	31,008	6,449,592	6,480,600	31,008	5,216,732	5,247,740
Total liabilities payable from restricted assets	<u>18,734,571</u>	<u>21,604,392</u>	<u>40,338,963</u>	<u>84,066,172</u>	<u>145,050,332</u>	<u>229,116,504</u>
Deferred revenue – water availability charges	1,965,179	—	1,965,179	2,367,436	—	2,367,436
Other deferred revenue	13,641,804	32,316	13,674,120	8,734,604	1,022	8,735,626
Total current liabilities	<u>62,462,478</u>	<u>56,635,814</u>	<u>119,098,291</u>	<u>109,985,309</u>	<u>196,028,943</u>	<u>306,014,252</u>
Noncurrent liabilities:						
Long-term debt:						
Certificates of Participation	126,683,278	305,612,884	432,296,162	129,569,650	120,691,531	250,261,181
Bonds payable	32,904,703	34,318,446	67,223,149	33,660,678	34,995,618	68,656,296
Capital leases	1,261,600	2,298,178	3,559,778	2,044,574	3,468,024	5,512,598
Total long-term debt	<u>160,849,580</u>	<u>342,229,508</u>	<u>503,079,088</u>	<u>165,274,902</u>	<u>159,155,173</u>	<u>324,430,075</u>
Other noncurrent liabilities:						
Advances	13,429,020	517,325	13,946,345	13,267,834	1,631,533	14,899,367
Accrued vacation and sick leave, noncurrent portion	4,663,083	5,737,237	10,400,320	4,912,093	5,374,482	10,286,575
Accrued other post employee benefits	8,032,692	15,148,095	23,180,787	3,590,292	7,991,295	11,581,587
Self-insurance	2,561,965	4,707,677	7,269,642	2,544,495	4,373,438	6,917,933
Total other noncurrent liabilities	<u>28,686,760</u>	<u>26,110,334</u>	<u>54,797,095</u>	<u>24,314,714</u>	<u>19,370,748</u>	<u>43,685,462</u>
Total noncurrent liabilities	<u>189,536,340</u>	<u>368,339,842</u>	<u>557,876,183</u>	<u>189,589,616</u>	<u>178,525,921</u>	<u>368,115,537</u>
Total liabilities	<u>251,998,818</u>	<u>424,975,656</u>	<u>676,974,474</u>	<u>299,574,925</u>	<u>374,554,864</u>	<u>674,129,789</u>
Net assets:						
Invested in utility plant, net of related debt	502,371,737	754,584,071	1,256,955,808	304,511,463	702,353,733	1,006,865,196
Restricted for:						
Debt service	11,815,491	39,622,829	51,438,320	13,266,748	16,009,773	29,276,521
Other purposes	39,971,627	13,614,092	53,585,718	17,587,472	66,102,561	83,690,033
Unrestricted	78,222,580	76,514,424	154,737,004	160,373,631	71,185,322	231,558,953
Total net assets	<u>\$ 632,381,435</u>	<u>\$ 884,335,415</u>	<u>\$ 1,516,716,850</u>	<u>\$ 495,739,314</u>	<u>\$ 855,651,389</u>	<u>\$ 1,351,390,703</u>

**IMPERIAL IRRIGATION DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

	2008			2007		
	Water	Energy	Total	Water	Energy	Total
Operating revenues:						
Energy sales	\$ —	285,260,342	285,260,342	\$ —	271,802,140	271,802,140
Water sales	46,947,986	—	46,947,986	46,243,261	—	46,243,261
Water availability charges	1,993,721	—	1,993,721	2,128,016	—	2,128,016
Interdepartmental charges:						
Use of All-American Canal	7,340,000	(7,340,000)	—	7,340,000	(7,340,000)	—
Energy sales	(1,895,542)	1,895,542	—	(1,688,524)	1,688,524	—
Dispatching and wheeling charges	—	13,967,982	13,967,982	—	13,814,340	13,814,340
ECA revenues	—	165,083,826	165,083,826	—	147,204,617	147,204,617
Water funds:						
MWD revenue	10,189,192	—	10,189,192	9,348,708	—	9,348,708
Western farm land proceeds	1,873,396	—	1,873,396	2,972,594	—	2,972,594
Water transfer revenue	15,404,729	—	15,404,729	14,800,000	—	14,800,000
Other	11,895,205	1,763,308	13,658,513	14,264,776	1,595,377	15,860,153
Total operating revenues	<u>93,748,687</u>	<u>460,630,999</u>	<u>554,379,686</u>	<u>95,408,831</u>	<u>428,764,998</u>	<u>524,173,829</u>
Operating expenses:						
Purchased Energy	—	207,871,575	207,871,575	—	179,045,339	179,045,339
Cost of fuel	—	78,173,834	78,173,834	—	84,250,765	84,250,765
Other Energy expenses	—	101,659,204	101,659,204	—	99,773,767	99,773,767
Other post employee benefits (OPEB)	3,943,912	5,201,750	9,145,662	3,051,749	4,794,800	7,846,549
Operation and maintenance of All-American Canal	6,982,853	—	6,982,853	7,184,644	—	7,184,644
Operation and maintenance of irrigation system and dams	66,663,434	—	66,663,434	74,085,032	—	74,085,032
General and administration expense	7,125,869	10,222,113	17,347,982	7,286,078	11,686,380	18,972,458
Provision for depreciation and amortization	12,943,649	43,717,424	56,661,073	12,835,556	41,102,276	53,937,832
Total operating expenses	<u>97,659,717</u>	<u>446,845,901</u>	<u>544,505,618</u>	<u>104,443,059</u>	<u>420,653,327</u>	<u>525,096,386</u>
Operating income (loss)	<u>(3,911,031)</u>	<u>13,785,098</u>	<u>9,874,067</u>	<u>(9,034,228)</u>	<u>8,111,671</u>	<u>(922,557)</u>
Nonoperating revenues (expenses):						
Investment income	6,833,187	3,230,607	10,063,794	7,753,696	7,661,796	15,415,492
Interest expense	(7,711,524)	(9,896,999)	(17,608,523)	(7,986,663)	(7,739,701)	(15,726,364)
Net gain on sale of land	4,353,524	—	4,353,524	19,029,308	—	19,029,308
Other income	2,420,787	2,119,222	4,540,010	2,982,769	1,684,664	4,667,433
Total nonoperating revenues (expenses)	<u>5,895,974</u>	<u>(4,547,169)</u>	<u>1,348,805</u>	<u>21,779,110</u>	<u>1,606,759</u>	<u>23,385,869</u>
Income (loss) before capital contributions	<u>1,984,944</u>	<u>9,237,929</u>	<u>11,222,872</u>	<u>12,744,882</u>	<u>9,718,430</u>	<u>22,463,312</u>
Capital contributions	134,657,177	19,446,097	154,103,274	110,262,017	19,145,271	129,407,288
Increase (decrease) in net assets	<u>136,642,121</u>	<u>28,684,025</u>	<u>165,326,146</u>	<u>123,006,899</u>	<u>28,863,701</u>	<u>151,870,600</u>
Net assets, beginning of year	495,739,314	855,651,389	1,351,390,703	372,732,415	826,787,688	1,199,520,103
Net assets, end of year	<u>\$ 632,381,435</u>	<u>884,335,415</u>	<u>1,516,716,850</u>	<u>\$ 495,739,314</u>	<u>855,651,389</u>	<u>1,351,390,703</u>

**IMPERIAL IRRIGATION DISTRICT  
STATEMENTS OF CASH FLOWS**

	2008			2007		
	Water	Energy	Total	Water	Energy	Total
<b>Cash Flows from Operating Activities:</b>						
Cash received from customers	\$ 94,736,044	\$ 455,547,177	\$ 550,283,221	\$ 112,267,341	\$ 458,945,773	\$ 571,213,114
Cash paid to suppliers for goods and services	(7,125,869)	(10,222,113)	(17,347,982)	(7,286,078)	(11,686,380)	(18,972,458)
Cash received(paid) for interdepartmental sevices	5,444,458	(5,444,458)		5,651,476	(5,651,476)	
Cash paid to energy and water costs	(63,239,734)	(397,826,678)	(461,066,412)	(82,018,430)	(382,863,397)	(464,881,827)
<b>Net Cash Provided by Operating Activities</b>	<b>29,814,899</b>	<b>42,053,928</b>	<b>71,868,827</b>	<b>28,614,309</b>	<b>58,744,520</b>	<b>87,358,829</b>
<b>Cash Flows from Non-capital Financing Activities:</b>						
Other non-operating income	2,420,787	2,119,222	4,540,009	2,982,769	1,684,664	4,667,433
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Proceeds from issuance of long-term debt	(559,185)	61,550,827	60,991,642	49,114,901	128,394,606	177,509,507
Principal payments on long-term debt	(4,080,198)	(62,243,915)	(66,324,113)	(10,599,558)	(19,444,701)	(30,044,259)
Interest paid on long-term debt	(6,660,101)	(9,576,631)	(16,236,732)	(8,517,182)	(7,448,584)	(15,965,766)
Capital expenditures	(145,954,922)	(99,019,143)	(244,974,065)	(86,504,783)	(165,966,418)	(252,471,201)
Sale of capital assets	10,251,440		10,251,440	39,238,310		39,238,310
Capital contributions	219,051,994	19,446,097	238,498,091	25,119,744	21,366,593	46,486,337
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<b>72,049,028</b>	<b>(89,842,765)</b>	<b>(17,793,737)</b>	<b>7,851,432</b>	<b>(43,098,504)</b>	<b>(35,247,072)</b>
<b>Cash Flows from Investing Activities:</b>						
Interest received	6,672,451	3,358,062	10,030,513	6,241,076	5,963,829	12,204,905
Sale (purchase) of investments, net	(132,578,655)	19,979,364	(112,599,291)	34,766,065	38,826,179	73,592,244
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(125,906,204)</b>	<b>23,337,426</b>	<b>(102,568,778)</b>	<b>41,007,141</b>	<b>44,790,008</b>	<b>85,797,149</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(21,621,490)</b>	<b>(22,332,189)</b>	<b>(43,953,679)</b>	<b>80,455,651</b>	<b>62,120,688</b>	<b>142,576,339</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>100,253,145</b>	<b>78,227,767</b>	<b>178,480,912</b>	<b>19,797,494</b>	<b>16,107,079</b>	<b>35,904,573</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 78,631,655</b>	<b>\$ 55,895,578</b>	<b>\$ 134,527,233</b>	<b>\$ 100,253,145</b>	<b>\$ 78,227,767</b>	<b>\$ 178,480,912</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 78,631,655</b>	<b>\$ 55,895,578</b>	<b>\$ 134,527,233</b>	<b>\$ 100,253,145</b>	<b>\$ 78,227,767</b>	<b>\$ 178,480,912</b>
<b>Investments, End of Year</b>	<b>118,607,417</b>	<b>124,321,813</b>	<b>242,929,230</b>	<b>50,869,559</b>	<b>87,027,001</b>	<b>137,896,560</b>
<b>Total Cash and Investments, End of Year</b>	<b>\$ 197,239,072</b>	<b>\$ 180,217,391</b>	<b>\$ 377,456,463</b>	<b>\$ 151,122,704</b>	<b>\$ 165,254,768</b>	<b>\$ 316,377,472</b>

**IMPERIAL IRRIGATION DISTRICT  
STATEMENTS OF CASH FLOWS**

	2008			2007		
	Water	Energy	Total	Water	Energy	Total
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:						
Operating (loss) income	\$ (3,911,031)	\$ 13,785,098	\$ 9,874,067	\$ (9,034,228)	\$ 8,111,671	\$ (922,557)
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:						
Provision for depreciation and amortization	12,943,649	43,717,424	56,661,073	12,835,556	41,102,276	53,937,832
Provision for bad debts	(518,634)	744,623	225,989	1,016,904	2,205,347	3,222,251
Other post-employment benefits expense	3,943,912	5,201,750	9,145,662	3,051,749	4,794,800	7,846,549
(Increase) decrease in assets and increase (decrease) in liabilities:						
Trade accounts receivable	(1,795,743)	(9,744,540)	(11,540,283)	3,970,206	11,675,963	15,646,169
Other receivables	3,561,430	4,963,165	8,524,595	8,324,352	1,101,416	9,425,768
Inventories	7,637	4,091,230	4,098,867	61,320	(4,744,808)	(4,683,488)
Prepaid expenses	(1,464,991)	167,358	(1,297,633)	153,768	273,035	426,803
Other restricted assets - refundable to customers		(5,896,850)	(5,896,850)		11,073,089	11,073,089
Accounts payable	11,644,050	(18,019,990)	(6,375,940)	(3,373,908)	4,020,644	646,736
Accrued compensation and payroll taxes	253,254	655,401	908,655	249,063	226,340	475,403
Accrued compensated absences	(81,640)	465,099	383,459	767,079	653,694	1,420,773
Self-insurance	566,877	1,774,214	2,341,091	377,020	(22,427,778)	(22,050,758)
Advances and deposits from customers	161,186	118,652	279,838	13,181,766	2,630,799	15,812,565
Deferred revenue - water availability	(402,257)		(402,257)	381,288		381,288
Other deferred revenues	4,907,200	31,294	4,938,494	(3,347,626)	(1,951,968)	(5,299,594)
Total Adjustments	33,725,930	28,268,830	61,994,760	37,648,537	50,632,849	88,281,386
Net Cash Provided by Operating Activities	\$ 29,814,899	\$ 42,053,928	\$ 71,868,827	\$ 28,614,309	\$ 58,744,520	\$ 87,358,829
Non-cash Capital Activities:						
Capitalized other post-employment benefits expense	\$ 498,488	\$ 1,955,050	\$ 2,453,538	\$ 538,544	\$ 3,196,518	\$ 3,735,062

**Note 1 - Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Imperial Irrigation District (the District) is a public entity organized in 1911 under the California Irrigation District Law (codified at Division 11 of the California Water Code) (the “Law”). The District has the power under law to, among other things; provide irrigation and electric service within its geographic boundaries, an area of 1,658 square miles for water and 6,483 square miles for electric. In connection therewith, the District has the powers of eminent domain, to contract, to construct works, to fix rates and charges for commodities of services, and to incur indebtedness. The District supplies untreated water for cities and towns and covers approximately 815 square miles.

The District entered the power business in 1936 to utilize the hydroelectric generation potential of the All American Canal. The District’s energy system serves over 144,000 residential, commercial and industrial customers.

The District is governed by a five-member board of directors elected by the citizens residing within the District’s boundaries.

**B. Basis of Accounting**

The accounting records of the District are maintained on the accrual basis of accounting. Under this method, revenues are recognized in the period earned and expenses are recognized in the period incurred. The effects of interdepartmental transactions relative to the use of All-American Canal water and energy charges have not been eliminated from the financial statements of the water and electric departments, as the District’s Board of Directors believes that the respective operating results of such enterprise funds should remain separate to facilitate management review and appropriate rate setting. Such separation is also required for evidence of compliance with debt agreements relating to the District’s outstanding indebtedness.

The District maintains separate accounting records for the Water and Power Departments. Each of these departments is reported as a separate enterprise fund, and the combined totals represent the business-type activities in the basic financial statements. The District’s Water and Power Department's basis of accounting conform to the accounting principles generally accepted in the United States of America.

## IMPERIAL IRRIGATION DISTRICT NOTES TO FINANCIAL STATEMENTS

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### Note 1 - Summary of Significant Accounting Policies (Continued)

#### C. Accounting Pronouncements

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the District applies all applicable GASB pronouncements as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements contradict GASB pronouncements. The District has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

The District presents its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments*, as amended. GASB 34 established standards for external financial reporting for all state and local governmental entities which include a statement of net assets, statement of revenues, expenses, and changes in net assets and a statement of cash flows.

The District follows the financial reporting requirements of GASB 34 and reports net assets in the following classifications:

*Invested in capital assets, net of related debt* – consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long term borrowings that are attributable to the acquisition, construction, or improvements to those assets. The District utility plant assets include plant and equipment and land and water rights (see note 3).

*Restricted* – consists of assets that have restrictions placed upon their use through external constraints imposed either by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through enabling legislation.

*Unrestricted* – consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”. Unlike the restricted net assets, the District’s board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net assets. The board may at any time change or eliminate amounts established for these purposes.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**D. Utility Plant**

District utility plant includes plant and equipment, which are stated at cost. Maintenance and repairs are charged to operating expense as incurred. The cost of constructed assets includes labor and related labor overheads, materials, allocated indirect charges such as engineering and supervision, certain administrative and general expenses and capitalized interest. The cost of minor replacements is included in maintenance expense.

The District has an undivided interest in certain energy generation stations and transmission systems that are jointly owned with several other governmental electrical utility operators. The operating agreements under which the facilities were constructed required that each participant provide its own construction financing. The District's proportionate share of construction and improvement costs for such jointly owned facilities has been included in an appropriate category of utility plant. The District incurs certain minimum operating costs on jointly owned facilities, whether or not it is able to take delivery of its proportionate share of energy generated (see note 12-C). Such expenses incurred are included in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

Buildings, vehicles, equipment, drainage structures, canal linings, canal structures transmission, distribution and general plant owned by the Water and Energy Departments are depreciated utilizing the straight-line basis over their estimated useful lives.

Estimated average useful lives of classes of utility plant are as follows:

Structures & Improvements	20 – 50 years
Generation	33 years
Transmission and Distribution	33 years
Canals & Drainage	30 years
General Plant & Equipment	5 – 10 years

**E. Protection of Water Rights**

The District capitalizes the costs associated with the protection of water rights. Capitalized costs include such items as legal and consultant fees paid by the District in an effort to sustain the District's priority use of Colorado River water. Such costs are amortized utilizing the straight-line basis over a 35-year period. Amortization charges for protection of water rights were \$873,003 and \$873,003 for the years ended December 31, 2008 and 2007, respectively.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

F. Inventories

Inventories consisting of fuel oil, materials, and supplies are recorded at cost on a weighted-average basis.

G. Revenue Recognition

The principal customers of the Water Department are farm operators and Imperial County municipalities. The municipalities treat the water and resell it to their residential and business customers. The Water Department recognizes revenue as customers are billed at the end of each month for water delivered during the month. In addition, each landowner pays an annual water availability fee, which is based upon acreage owned. The water availability fee is billed in advance in December of each year, but is amortized monthly throughout the year.

The Energy department sells energy to residential, commercial, and industrial customers and excess amounts of energy and natural gas, if any, are sold to the wholesale market. Energy revenues are recognized as customers of the Energy Department are billed monthly.

H. Unbilled Revenues

The District recorded Energy Department unbilled revenues, revenue that has been recognized in the Financial Statement but which has not been billed at year end. Unbilled revenues include fuel/energy revenues billed through the ECA.

Sales of water to the District's water customers are recorded as revenue in the month the water is delivered to the customer.

I. Energy Cost Adjustment

The District's Rate Schedule ECA (Energy Cost Adjustment) billing factor provides for an adjustment to the kilowatt-hour (KWh) portion of customer bills to reflect variations in the variable cost of purchased power, fuel used for generation of electric energy, and reduced by revenue from wholesale sale of energy to other entities. As of March 2008, the ECA has been fixed at 5.01 cents per Kwh.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**J. Operating and Non-operating Revenues and Expenses**

The District's primary purpose is to provide water for agricultural and municipal use and provide a supply of energy for residential, commercial and industrial use. Accordingly, the District defines operating revenues as water sales, revenues from water transfers under the Quantification Settlement Agreement and Related Agreements (QSA), sales of energy, wholesale sales of energy and gas and other miscellaneous service water and energy revenues. Operating expenses include the cost of sales and services, administrative expenses and depreciation and amortization. Non-operating revenues and expenses primarily consist of interest income on investments and interest expense.

**K. Restricted Assets**

Restricted assets represent allocations of cash and investment resources pursuant to the covenants of the Certificates of Participation, Revenue Bonds, and for other legally restricted purposes, as follows:

- Debt Service Reserve Fund – Represents cash and investments held by the Certificate of Participation (COP) and the Revenue Bonds trustees for debt service in accordance with the indentures.
- Construction Fund – Represents funds set aside for the District's capital improvements program, including unspent Commercial Paper, Revenue Bond and COP proceeds, and certain equipment and property reserves.
- Other Restricted Funds – Represents funds set aside for the Water Department that primarily include the Local Entity funds, MWD SCADA funds, the San Diego County Water Authority (SDCWA) advances for the All American Canal Project and Natural Community Conservation Plan (NCCP) Habitat Conservation Plan (HCP) funds; temporary escrow accounts for certain leased equipment; and for the Energy Department that primarily includes the Public Benefit Charge (PBC) and customer deposits.

**L. Cash and Cash Equivalents**

The District invests its idle cash on a daily basis. Other investments consist primarily of federal agency securities, bank certificates of deposit, medium-term corporate notes, and other investments.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

Investments are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of guaranteed investment contracts and other investments is estimated based on similar traded securities. The fair value of government-sponsored investment pools and other similar investments is stated at share value or appropriate allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost. The calculation of realized gains and losses is independent of the calculation of the net increase or decrease in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current fiscal year may have been recognized as increases or decreases in fair value of investments reported in the prior year. Investment earnings, including the change in the fair value of investments, are allocated to the District's operating departments on a monthly basis based upon their relative investment balances.

The District considers all cash and cash deposits, investments in the State Treasurer's Local Agency Investment Fund, and other investments with initial maturities of less than 90 days at the date of purchase to be cash and cash equivalents for the purpose of preparing the District's financial statements.

**M. Income Tax**

The District qualifies for tax-exempt status as an integral part of the State of California or a political subdivision in accordance with Internal Revenue Code (IRC) Section 115.

**N. Prepaid Pension Obligation**

In June 2001, the District issued \$75,000,000 Taxable Pension Obligation Revenue Bonds, Series 2001. Net proceeds of the bonds were used to fund the District's unfunded actuarial pension liability upon the termination of the District's defined benefit pension plan on June 30, 2001. Such amount is presented on the accompanying statements of net assets as a prepaid pension obligation to be amortized over the life of the 2001 Bonds (30 years) on a straight-line basis.

**O. Capital Contributions**

Capital contributions for the water and energy represent contributions of cash and/or capital assets from developers, customers and other third parties. Capital contributions are recorded in the Statement of Revenues, Expenses and Changes in Net Assets at the fair value at time of receipt.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Capital Contributions were \$134,657,177 for the Water Department and \$19,446,097 for the Energy Department in 2008. The Water Department Capital contributions are primarily the result of the All American Canal Project. (See Note 1.Q below). The Energy Department Capital Contributions are primarily line extension and contributions from developer projects.

**P. Compensated Absences**

The District employees earn vacation and sick leave in varying amounts depending on length of service. Upon termination from District service, employees are entitled to full payment for accrued vacation at their final pay rates and are also entitled to payment for approximately one-half of their accrued sick leave at such rates. The District records its obligation for vacation and sick leave when earned by eligible employees based on current pay rates and adjusts the accumulated liability based on current pay rates.

**Q. Due from Other Agencies**

In 2008, the District's Water Department completed billing to the State of California Department of Water Resources (DWR) for their portion of the All American Canal (AAC) Project and began receiving advance payments for expenses from the San Diego County Water Authority (SDCWA). An amount is not owed at year end from Other Agencies. At year-end 2007, the Water Department recorded a receivable (due) from other agencies in the amount of \$84,394,817. This receivable was a result of the All American Canal (AAC) Project. The District is the project manager. The construction project is entirely paid for by the State of California and SDCWA, who is the primary beneficiary of the water conserved from the project. The District's role in the AAC project is to serve as lead project manager. The project is expected to be completed in 2010. At the conclusion of the project, the District's Water Department will have a capital asset estimated at \$298 million and completely paid for by these governmental agencies.

**R. Use of Estimates**

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

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Cash and Investments**

Cash and investments as of December 31, 2008 and 2007 are classified in the accompanying financial statements as follows:

	<u>2008</u>	<u>2007</u>
Cash and investments	\$ 308,635,681	\$ 259,823,803
Cash and investments at fiscal agents	<u>68,820,782</u>	<u>56,553,669</u>
Total Cash and Investments	<u>\$ 377,456,463</u>	<u>\$ 316,377,472</u>

Cash and investments as of December 31, 2008 and 2007 consist of the following:

Cash on hand	\$ 13,510	\$ 13,009
Deposits with financial institutions	19,751,367	38,625,893
Investments	<u>357,691,586</u>	<u>277,738,570</u>
Total Cash and Investments	<u>\$ 377,456,463</u>	<u>\$ 316,377,472</u>

Investments Authorized by the California Government Code and the Imperial Irrigation District's Investment Policy

The following table identifies investment types that are authorized by the California Government code or, where more restrictive, the Imperial Irrigation District's Investment Policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum* Portfolio Percentage</u>	<u>Maximum Investment per Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	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
Local Agency Investment Fund (LAIF)	N/A	None	None

\*Exception to Maximum Maturity are Reserve Investments

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note 2 - Cash and Investments (Continued)**

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that 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 that 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.

As of December 31, 2008, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1 Year	1 - 5 Years	More than 5 Years
U.S. Agency Securities	\$ 73,447,035	\$ 28,083,012	\$ 37,492,953	\$ 7,871,070
Repurchase Agreements	4,523,900	2,023,900	-	2,500,000
Corporate Medium-Term Notes	64,788,757	28,194,195	36,594,562	-
Mutual Funds	113,725,801	113,725,801	-	-
Money Market	46,228,193	46,228,193	-	-
Commercial Paper	14,977,900	14,977,900	-	-
Local Agency Investment Fund	40,000,000	40,000,000	-	-
<b>Total</b>	<b>\$ 357,691,586</b>	<b>\$ 273,233,001</b>	<b>\$ 74,087,515</b>	<b>\$ 10,371,070</b>

As of December 31, 2007, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1 Year	1 - 5 Years	More than 5 Years
U.S. Treasury Obligations	\$ 2,182,069	\$ -	\$ 2,182,069	\$ -
U.S. Agency Securities	64,908,086	36,287,440	19,274,404	9,346,242
Repurchase Agreements	4,522,400	-	2,022,400	2,500,000
Corporate Medium-Term Notes	65,915,145	41,587,290	24,327,855	-
Mutual Funds	77,367,191	77,367,191	-	-
Money Market	45,474,818	45,474,818	-	-
Mortgage Backed Securities	368,861	368,861	-	-
Local Agency Investment Fund	17,000,000	17,000,000	-	-
<b>Total</b>	<b>\$ 277,738,570</b>	<b>\$ 218,085,600</b>	<b>\$ 47,806,728</b>	<b>\$ 11,846,242</b>

# IMPERIAL IRRIGATION DISTRICT NOTES TO FINANCIAL STATEMENTS

## Note 2 - Cash and Investments (Continued)

### Disclosures Relating to 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 the California Government Code, the District's investment policy, or debt agreement and the actual rating as of year-end for each investment type.

A summary of disclosures relating to credit risk at December 31, 2008:

Investment Type	Min Rating	Exempt From Disclosure	Moody's Rating as of Year End					
			Aaa	Aa	A	B	Not Rated	
Money Market	\$ 46,228,193	N/A	\$ 33,579,230	\$ 12,648,963	\$ -	\$ -	\$ -	\$ -
Mutual Fund	113,725,801	Aaa	-	113,725,801	-	-	-	-
Corporate Medium-Term Notes	64,788,757	A	-	7,005,650	22,006,220	25,550,342	10,131,545	95,000
Local Agency Funds	40,000,000	N/A	40,000,000	-	-	-	-	-
Repurchase Agreements	4,523,900	N/A	4,523,900	-	-	-	-	-
U.S. Agencies	73,447,035	N/A	-	56,449,035	-	-	-	16,998,000
Commercial Paper	14,977,900	N/A	-	-	-	-	-	14,977,900
	<u>\$ 357,691,586</u>		<u>\$ 78,103,130</u>	<u>\$ 189,829,449</u>	<u>\$ 22,006,220</u>	<u>\$ 25,550,342</u>	<u>\$ 10,131,545</u>	<u>\$ 32,070,900</u>

The District invests its funds under the allowable California Government Code Sections 53601 and 53635. At December 31, 2008, the District's investment portfolio included investments in CIT Group and International Finance Corporation for a total of \$10,131,545 that fell below the District's required investment grade. In addition, there is an investment in Lehman Brothers Holdings with a par value of \$1,000,000 and market value of \$95,000 which is currently in default. The District's investment portfolio value fluctuates in an inverse relationship to any change in interest rate. Therefore, cash balances reflect the portfolio change in value. The portfolio value changes are unrealized unless sold. The District buys and holds investments until called or matured.

A summary of disclosures relating to credit risk at December 31, 2007:

Investment Type	Min Rating	Min Rating	Moody's Rating as of Year End					
			Aaa	Aa	A	B	Not Rated	
U.S. Treasury Obligations	\$ 2,182,069	N/A	\$ 2,182,069	\$ -	\$ -	\$ -	\$ -	-
U.S. Agency Securities	64,908,086	N/A	63,912,106	995,980	-	-	-	-
Repurchase Agreements	4,522,400	N/A	-	-	-	-	-	4,522,400
Corporate Medium-Term Notes	65,915,145	A	11,255,880	19,790,170	27,793,455	7,075,640	-	-
Mutual Funds	77,367,191	Aaa	77,367,191	-	-	-	-	-
Money Market	45,474,818	N/A	45,474,818	-	-	-	-	-
Mortgage-Backed Securities	368,861	A	-	-	-	-	-	368,861
Local Agency Investment Fund	17,000,000	N/A	-	-	-	-	-	17,000,000
	<u>\$ 277,738,570</u>		<u>\$ 200,192,064</u>	<u>\$ 20,786,150</u>	<u>\$ 27,793,455</u>	<u>\$ 7,075,640</u>	<u>\$ 21,891,261</u>	

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Cash and Investments (Continued)**

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows at December 31, 2008:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FHLB	Federal agency securities	\$ 35,002,945
FNMA	Federal agency securities	\$ 14,588,443

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 or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of December 31, 2008 and 2007, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Cash and Investments (Continued)**

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**Note 3 - Utility Plant**

Utility plant is comprised of the following at December 31, 2008:

Water	January 1, 2008	Additions	Retirements	Transfers	December 31, 2008
Utility Plant, not Being Depreciated:					
Land and land rights	\$ 58,965,948	\$ 110	\$ (4,753,643)	\$ -	\$ 54,212,415
Construction in process	147,259,757	141,764,006	-	(2,707,712)	286,316,052
<b>Total Utility Plant, not Being Depreciated</b>	<b>206,225,705</b>	<b>141,764,116</b>	<b>(4,753,643)</b>	<b>(2,707,712)</b>	<b>340,528,467</b>
Utility Plant, Being Depreciated:					
Structures and improvements	9,745,158	5,369	(176,745)	399,089	9,972,871
Canals	256,399,693	2,538,577	-	802,803	259,741,073
Drainage	81,962,429	1,713,404	-	1,536,133	85,211,966
All-American Canal	24,442,678	-	-	-	24,442,678
Dredges and field equipment	8,335,527	126,708	(253,704)	-	8,208,531
Automobiles and trucks	10,725,051	96,926	(1,090,230)	28,754	9,760,501
Other plant equipment	24,189,951	208,310	(336,530)	(993)	24,060,738
Roads, railroads and bridges	3,933,706	-	-	-	3,933,706
Reservoirs and dams	4,707,937	-	-	-	4,707,937
<b>Total Utility Plant, Being Depreciated</b>	<b>424,442,130</b>	<b>4,689,294</b>	<b>(1,857,209)</b>	<b>2,765,787</b>	<b>430,040,002</b>
Less accumulated depreciation	(139,111,627)	(11,912,945)	1,457,990	2,759	(149,563,824)
<b>Total Utility Plant, Being Depreciated, Net</b>	<b>285,330,503</b>	<b>(7,223,651)</b>	<b>(399,219)</b>	<b>2,768,546</b>	<b>280,476,178</b>
<b>Utility Plant, Net</b>	<b>\$ 491,556,208</b>	<b>\$ 134,540,465</b>	<b>\$ (5,152,862)</b>	<b>\$ 60,834</b>	<b>\$ 621,004,645</b>

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note 3 - Utility Plant (Continued)**

Energy	January 1, 2008	Additions	Retirements	Transfers	December 31, 2008
Utility Plant, not Being Depreciated:					
Land and land rights	\$ 14,169,845	\$ 329	\$ -	\$ -	\$ 14,170,174
Construction in process	198,413,182	38,095,499	-	(138,504,857)	98,003,825
 Total Utility Plant, not Being Depreciated	 212,583,027	 38,095,828	 -	 (138,504,857)	 112,173,999
Utility Plant, Being Depreciated:					
Structures and improvements	95,131,559	16,106	(530,235)	563,600	95,181,030
Dredges and field equipment	4,108,496	725,025	(149)	-	4,833,372
Automobiles and trucks	19,582,587	67,296	(1,104,986)	(28,754)	18,516,143
Other plant equipment	90,819,852	2,020,334	(134,198)	5,561,652	98,267,640
Stream plant equipment	119,647,572	2,393	-	6,997,425	126,647,390
Hydroelectric generating equipment	26,748,667	99,385	-	2,432,867	29,280,919
Gas turbines	27,145,945	31,243,339	-	72,748,328	131,137,612
Transmission plant	275,975,644	4,719,425	(843,272)	18,903,086	298,754,883
Distribution plant	651,551,473	23,985,063	(6,598,533)	31,268,577	700,206,580
Reservoirs and dams	3,733,226	-	-	-	3,733,226
 Total Utility Plant, Being Depreciated	 1,314,445,021	 62,878,365	 (9,211,373)	 138,446,781	 1,506,558,794
Less accumulated depreciation	(561,504,801)	(43,875,125)	4,711,347	3,898,231	(596,770,348)
 Total Utility Plant, Being Depreciated, Net	 752,940,220	 19,003,240	 (4,500,026)	 142,345,012	 909,788,446
 Utility Plant, Net	 \$ 965,523,247	 \$ 57,099,069	 \$ (4,500,026)	 \$ 3,840,155	 \$ 1,021,962,445

# IMPERIAL IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 3 - Utility Plant (Continued)

Combined Water and Energy	#	January 1, 2008	Additions	Retirements	Transfers	#	December 31, 2008	
Utility Plant, not Being Depreciated:								
Land and land rights	\$	73,135,793	\$ 439	\$ (4,753,644)	\$ -	\$	68,382,588	
Construction in process		<u>345,672,939</u>	<u>179,859,506</u>		# (141,212,568)		<u>384,319,877</u>	
<b>Total Utility Plant, not Being Depreciated</b>		<u>418,808,732</u>	<u>179,859,945</u>	<u>(4,753,644)</u>	<u>(141,212,568)</u>		<u>452,702,466</u>	
Utility Plant, Being Depreciated:								
Structures and improvements		104,876,717	21,474	(706,980)	962,689		105,153,900	
Dredges and field equipment		12,444,023	851,733	(253,853)	-		13,041,903	
Automobiles and trucks		30,307,638	164,222	(2,195,217)	-		28,276,643	
Other plant equipment		115,009,803	2,228,644	(470,728)	5,560,658		122,328,377	
Steam plant equipment		119,647,572	2,393	-	6,997,425		126,647,390	
Hydroelectric generating equipment		26,748,667	99,385	-	2,432,867		29,280,919	
Gas turbines		27,145,945	31,243,340	-	72,748,328		131,137,613	
Transmission plant		275,975,644	4,719,425	(843,272)	18,903,086		298,754,883	
Distribution plant		651,551,473	23,985,064	(6,598,533)	31,268,577		700,206,581	
Roads, railroads and bridges		3,933,706	-	-	-		3,933,706	
Reservoirs and dams		8,441,163	-	-	-		8,441,163	
Canals		256,399,693	2,538,577	-	802,803		259,741,073	
Drainage		81,962,429	1,713,404	-	1,536,133		85,211,966	
All-American Canal		<u>24,442,678</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>24,442,678</u>	
<b>Total Utility Plant, Being Depreciated</b>		<u>1,738,887,151</u>	<u>67,567,661</u>	<u>(11,068,583)</u>	<u>141,212,566</u>		<u>1,936,598,796</u>	
Less accumulated depreciation		<u>(700,616,428)</u>	<u>(55,788,071)</u>	<u>10,070,327</u>	<u>-</u>		<u>(746,334,172)</u>	
<b>Total Utility Plant, Being Depreciated, Net</b>		<u>1,038,270,723</u>	<u>11,779,590</u>	<u>(998,256)</u>	<u>141,212,566</u>		<u>1,190,264,624</u>	
<b>Utility Plant, Net</b>	<b>\$</b>	<b><u>1,457,079,455</u></b>	<b>\$</b>	<b><u>191,639,535</u></b>	<b>\$</b>	<b><u>(5,751,900)</u></b>	<b>\$</b>	<b><u>1,642,967,090</u></b>

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note 3 - Utility Plant (Continued)**

Utility plant is comprised of the following at December 31, 2007:

Water	January 1, 2007	Additions	Retirements	Transfers	December 31, 2007
Utility Plant, not Being Depreciated:					
Land and land rights	\$ 77,479,286	\$ -	\$ (18,513,338)	\$ -	\$ 58,965,948
Construction in process	43,534,942	113,879,545	-	(10,154,730)	147,259,757
 Total Utility Plant, not Being Depreciated	 121,014,228	 113,879,545	 (18,513,338)	 (10,154,730)	 206,225,705
Utility Plant, Being Depreciated:					
Structures and improvements	9,295,212	399,157	(57,944)	108,733	9,745,158
Canals	247,682,241	3,098,614	-	5,618,839	256,399,694
Drainage	78,277,035	2,420,288	-	1,265,108	81,962,431
All-American Canal	23,863,478	-	-	579,200	24,442,678
Dredges and field equipment	4,630,258	2,088,161	(567,155)	2,184,263	8,335,527
Automobiles and trucks	10,194,123	1,120,212	(366,102)	(223,183)	10,725,050
Other plant equipment	23,765,490	222,272	-	202,187	24,189,949
Roads, railroads and bridges	3,933,706	-	-	-	3,933,706
Reservoirs and dams	4,707,937	-	-	-	4,707,937
 Total Utility Plant, Being Depreciated	 406,349,480	 9,348,704	 (991,201)	 9,735,147	 424,442,130
Less accumulated depreciation	(128,232,533)	(11,752,711)	722,853	150,764	(139,111,627)
 Total Utility Plant, Being Depreciated, Net	 278,116,947	 (2,404,007)	 (268,348)	 9,885,911	 285,330,503
 Utility Plant, Net	 \$ 399,131,175	 \$ 111,475,538	 \$ (18,781,686)	 \$ (268,819)	 \$ 491,556,208

# IMPERIAL IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 3 - Utility Plant (Continued)

Energy	January 1, 2007	Additions	Retirements	Transfers	December 31, 2007
Utility Plant, not Being Depreciated:					
Land and land rights	\$ 14,169,845	\$ -	\$ -	\$ -	\$ 14,169,845
Construction in process	<u>148,295,567</u>	<u>127,779,502</u>	<u>-</u>	<u>(77,661,887)</u>	<u>198,413,182</u>
 Total Utility Plant, not Being Depreciated	 <u>162,465,412</u>	 <u>127,779,502</u>	 <u>-</u>	 <u>(77,661,887)</u>	 <u>212,583,027</u>
Utility Plant, Being Depreciated:					
Structures and improvements	89,635,929	3,331,846	(188,053)	2,351,837	95,131,559
Dredges and field equipment	2,846,476	1,327,049	(65,029)		4,108,496
Automobiles and trucks	17,884,685	1,973,639	(498,920)	223,183	19,582,587
Other plant equipment	77,622,217	2,055,503	-	11,142,132	90,819,852
Stream plant equipment	118,589,310	355,883	-	702,379	119,647,572
Hydroelectric generating equipment	26,017,314	731,353	-	-	26,748,667
Gas turbines	27,145,945	-	-	-	27,145,945
Transmission plant	268,454,860	1,614,756	-	5,906,028	275,975,644
Distribution plant	563,802,157	29,993,405	-	57,755,911	651,551,473
Reservoirs and dams	<u>3,733,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,733,226</u>
 Total Utility Plant, Being Depreciated	 1,195,732,119	 41,383,434	 (752,002)	 78,081,470	 1,314,445,021
Less accumulated depreciation	<u>(520,592,465)</u>	<u>(41,312,118)</u>	<u>550,546</u>	<u>(150,764)</u>	<u>(561,504,801)</u>
 Total Utility Plant, Being Depreciated, Net	 <u>675,139,654</u>	 <u>71,316</u>	 <u>(201,456)</u>	 <u>77,930,706</u>	 <u>752,940,220</u>
 Utility Plant, Net	 <u>\$ 837,605,066</u>	 <u>\$ 127,850,818</u>	 <u>\$ (201,456)</u>	 <u>\$ 268,818</u>	 <u>\$ 965,523,247</u>

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note 3 - Utility Plant (Continued)**

<u>Combined Water and Energy</u>	January 1, 2007	Additions	Retirements	Transfers	December 31, 2007
Utility Plant, not Being Depreciated:					
Land and land rights	\$ 91,649,131	\$ -	\$ (18,513,338)	\$ -	\$ 73,135,793
Construction in process	<u>191,830,509</u>	<u>241,659,047</u>	<u>-</u>	<u>(87,816,617)</u>	<u>345,672,939</u>
 Total Utility Plant, not Being Depreciated	 <u>283,479,640</u>	 <u>241,659,047</u>	 <u>(18,513,338)</u>	 <u>(87,816,617)</u>	 <u>418,808,732</u>
Utility Plant, Being Depreciated:					
Structures and improvements	98,931,141	3,731,003	(245,997)	2,460,570	104,876,717
Dredges and field equipment	7,476,734	3,415,210	(632,184)	2,184,263	12,444,023
Automobiles and trucks	28,078,809	3,093,851	(865,022)	-	30,307,638
Other plant equipment	101,387,709	2,277,775	-	11,344,319	115,009,803
Steam plant equipment	118,589,310	355,883	-	702,379	119,647,572
Hydroelectric generating equipment	26,017,314	731,353	-	-	26,748,667
Gas turbines	27,145,945	-	-	-	27,145,945
Transmission plant	268,454,860	1,614,756	-	5,906,028	275,975,644
Distribution plant	563,802,156	29,993,405	-	57,755,911	651,551,472
Roads, railroads and bridges	3,933,706	-	-	-	3,933,706
Reservoirs and dams	8,441,163	-	-	-	8,441,163
Canals	247,682,241	3,098,614	-	5,618,839	256,399,694
Drainage	78,277,033	2,420,288	-	1,265,108	81,962,429
All-American Canal	<u>23,863,478</u>	<u>-</u>	<u>-</u>	<u>579,200</u>	<u>24,442,678</u>
 Total Utility Plant, Being Depreciated	 1,602,081,599	 50,732,138	 (1,743,203)	 87,816,617	 1,738,887,151
Less accumulated depreciation	<u>(648,824,998)</u>	<u>(53,064,829)</u>	<u>1,273,399</u>	<u>-</u>	<u>(700,616,428)</u>
 Total Utility Plant, Being Depreciated, Net	 <u>953,256,601</u>	 <u>(2,332,691)</u>	 <u>(469,804)</u>	 <u>87,816,617</u>	 <u>1,038,270,723</u>
 Utility Plant, Net	 <u>\$ 1,236,736,241</u>	 <u>\$ 239,326,356</u>	 <u>\$ (18,983,142)</u>	 <u>\$ -</u>	 <u>\$ 1,457,079,455</u>

**Note 4 - Commercial Paper Programs**

A. All American Canal/Water System - \$50 million

On January 11, 2007, the District obtained a \$50 million Commercial Paper (CP) program. The program was set up to provide bridge funding for the All-American Canal (AAC) project. The District is the Project Manager for a joint project between San Diego County Water Authority (SDCWA) and California Department of Water Resources (DWR). The AAC project is scheduled for completion in 2010.

In 2008, the District paid off the \$50 million CP for the AAC Project. There was no outstanding liability as of December 31, 2008. The CP program will remain open until such time as the AAC project is completed.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 4 - Commercial Paper Programs (Continued)**

B. Water and Electrical System - \$200 million

On May 15, 2007, the District obtained an additional \$200 million Non-Taxable and Taxable Commercial Paper (CP) program to fund water and energy projects.

The outstanding warrants have a maximum maturity of 270 days with interest rates set per the Municipal Market Data (MMD) index on date of issuance. In 2008, the District paid off the energy portion of the Non-Taxable CP in the amount of \$169,845,000 through the Electric System Refunding Revenue Bonds, Series 2008A. The outstanding liability was \$15 million for water projects as of December 31, 2008.

A summary of the District's Water and Energy System Commercial Paper outstanding is as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Outstanding Warrants</u>	
		<u>Water</u>	<u>Energy</u>
January 2009	.50% to 1.75%	\$ 12,885,000	\$ -
February 2009	.60%	<u>\$ 2,115,000</u>	<u>\$ -</u>
Total		<u>\$ 15,000,000</u>	<u>\$ -</u>

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Long-Term Debt**

A summary of the District's long-term debt is as follows:

Water	Maturity Dates	Range of Interest Rates	January 1, 2008	Additions	Reductions	Balance, December 31, 2008	Current Portion
Certificates of participation - 2000, net of unamortized original issue premium of \$85,244	2021	3.85%-5.125%	\$ 22,391,886	\$ -	\$ (1,141,642)	\$ 21,250,244	\$ 1,190,000
Certificates of participation - 2002, net of unamortized original issue premium of \$713,715, net of unamortized deferral on refunding of \$800,681	2029	4.00%-5.50%	23,797,764	-	(84,730)	23,713,034	155,000
Certificates of participation - 2004	2034	2.45%-6.10%	85,515,000	-	(850,000)	84,665,000	1,600,000
Total Certificates of Participation			<u>131,704,650</u>	<u>-</u>	<u>(2,076,373)</u>	<u>129,628,278</u>	<u>2,945,000</u>
Pension obligation revenue bond 2001, net of unamortized original issue discount of \$54,437	2031	5.70%-7.00%	33,558,438	-	(598,926)	32,959,513	640,200
Water loan payable	2015	4.013%	817,482	-	(113,728)	703,753	118,363
Total Bonds Payable			<u>34,375,920</u>	<u>-</u>	<u>(712,654)</u>	<u>33,663,266</u>	<u>758,563</u>
Obligation under capital leases			3,304,579	146,520	(1,291,172)	2,159,927	898,327
Accrued vacation and sick leave			5,304,448	3,925,055	(4,006,696)	5,222,807	559,725
Other post employment benefits			3,590,292	4,442,400	-	8,032,692	-
Total Long-term Debt			<u>\$ 178,279,889</u>	<u>\$ 8,513,975</u>	<u>\$ (8,086,894)</u>	<u>\$ 178,706,970</u>	<u>\$ 5,161,615</u>

# IMPERIAL IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 5 - Long-Term Debt (Continued)

Energy	Maturity Dates	Range of Interest Rates	January 1, 2008	Additions	Reductions	December 31, 2008	Current Portion
Certificates of participation - 1993, net of unamortized original issue discount of \$24,361	2009	4.90%	\$ 17,446,405	\$ -	\$ (8,500,767)	\$ 8,945,639	\$ 8,970,000
Certificates of participation - 1998, net of unamortized original issue discount of \$84,201 and deferral on refunding of \$2,776,200	2018	3.10%	44,404,599	-	(44,404,599)	-	-
Certificates of participation - 2003, net of unamortized original issue discount of \$1,238,102	2028	1.00%-5.25%	73,035,527	-	(2,312,425)	70,723,102	2,055,000
Certificates of participation - 2008, net of unamortized original issue discount of \$1,847,539 and deferral on refunding of \$3,788,318	2038	3.00%-5.25%	-	244,787,727	(4,368,583)	240,419,144	3,450,000
Total Certificates of Participation			134,886,531	244,787,727	(59,586,374)	320,087,884	14,475,000
Pension obligation revenue bond 2001, net of unamortized original issue discount of \$57,804	2031	5.70%-7.00%	35,634,218	-	(635,973)	34,998,246	679,800
Obligation under capital leases			5,788,867	856,639	(2,503,066)	4,142,440	1,844,262
Accrued vacation and sick leave			5,817,602	5,935,407	(5,470,308)	6,282,701	545,464
Other post employment benefits			7,991,295	7,156,800	-	15,148,095	-
Total Long-term Debt			<u>\$ 190,118,514</u>	<u>\$ 258,736,573</u>	<u>\$ (68,195,720)</u>	<u>\$ 380,659,366</u>	<u>\$ 17,544,526</u>

\*During 2008 the 1998 Certificate of Participation was fully defeased.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Long-Term Debt (Continued)**

Combined Water and Energy	Maturity Dates	Range of Interest Rates	January 1, 2008	Additions	Reductions	December 31, 2008	Current Portion
Certificates of participation - 1993, net of unamortized original issue discount of \$24,361	2009	4.90%	\$ 17,446,405	\$ -	\$ (8,500,767)	\$ 8,945,639	\$ 8,970,000
Certificates of participation - 1998, net of unamortized original issue discount of \$84,201 and deferral on refunding of \$2,766,200	2018	3.10%	44,404,599	-	(44,404,599)	-	-
Certificates of participation - 2000, net of unamortized original issue premium of \$85,244	2021	3.85%-5.125%	22,391,886	-	(1,141,642)	21,250,244	1,190,000
Certificates of participation - 2002, net of unamortized original issue premium of \$713,715, net of unamortized deferral on refunding of \$800,681	2029	4.00%-5.50%	23,797,764	-	(84,730)	23,713,034	155,000
Certificates of participation - 2003, net of unamortized original issue discount of \$1,238,102	2028	1.00%-5.25%	73,035,527	-	(2,312,425)	70,723,102	2,055,000
Certificates of participation - 2004	2034	2.45%-6.10%	85,515,000	-	(850,000)	84,665,000	1,600,000
Certificates of participation - 2008, net of unamortized original issue discount of \$1,847,538 and deferral on refunding of \$3,788,318	2038	3.00%-5.25%	-	244,787,727	(4,368,583)	240,419,144	3,450,000
Total Certificates of Participation			266,591,181	244,787,727	(61,662,747)	449,716,162	17,420,000
Pension obligation revenue bond 2001, net of unamortized original issue discount of \$112,241	2031	5.70%-7.00%	69,192,657	-	(1,234,898)	67,957,759	1,320,000
Water loan payable	2015	4.013%	817,482	-	(113,728)	703,753	118,363
Total Bonds Payable			70,010,139	-	(1,348,627)	68,661,512	1,438,363
Obligation under capital leases			9,093,446	1,003,159	(3,794,238)	6,302,367	2,742,589
Accrued vacation and sick leave			11,122,050	9,860,462	(9,477,004)	11,505,508	1,105,188
Other post employment benefits			11,581,587	11,599,200	-	23,180,787	-
Totals			\$ 368,398,403	\$ 267,250,548	\$ (76,282,616)	\$ 559,366,336	\$ 22,706,140

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Long-Term Debt (Continued)**

Water	Maturity Dates	Range of Interest Rates	January 1, 2007	Additions	Reductions	Balance, December 31, 2007	Current Portion
Certificates of participation - 2000, net of unamortized original issue premium of \$91,886	2021	3.85%-5.125%	\$ 23,488,529	\$ -	\$ (1,096,643)	\$ 22,391,886	\$ 1,135,000
Certificates of participation - 2002, net of unamortized original issue premium of \$748,530, net of unamortized deferral on refunding of \$900,766	2029	4.00%-5.50%	23,877,495	-	(79,731)	23,797,764	150,000
Certificates of participation - 2004	2034	2.45%-6.10%	<u>86,215,000</u>	<u>-</u>	<u>(700,000)</u>	<u>85,515,000</u>	<u>850,000</u>
Total Certificates of Participation			<u>133,581,024</u>	<u>-</u>	<u>(1,876,374)</u>	<u>131,704,650</u>	<u>2,135,000</u>
Pension obligation revenue bond 2001, net of unamortized original issue discount of \$56,911	2031	5.70%-7.00%	34,120,989	-	(562,551)	33,558,438	601,400
Water loan payable	2015	4.013%	<u>926,806</u>	<u>-</u>	<u>(109,324)</u>	<u>817,482</u>	<u>113,841</u>
Total Bonds Payable			<u>35,047,795</u>	<u>-</u>	<u>(671,875)</u>	<u>34,375,920</u>	<u>715,242</u>
Obligation under capital leases			2,677,424	2,318,105	(1,690,950)	3,304,579	1,260,004
Accrued vacation and sick leave			4,537,369	4,708,807	(3,941,728)	5,304,448	392,355
Water installment sale agreement			5,586,258	-	(5,586,258)	-	-
Land installment sale agreement			727,736	-	(727,736)	-	-
Other post employment benefits			-	3,590,292	-	3,590,292	-
Total Long-term Debt			<u>\$ 182,157,606</u>	<u>\$ 10,617,204</u>	<u>\$ (14,494,921)</u>	<u>\$ 178,279,889</u>	<u>\$ 4,502,601</u>

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Long-Term Debt (Continued)**

Energy	Maturity Dates	Range of Interest Rates	January 1, 2007	Additions	Reductions	December 31, 2007	Current Portion
Certificates of participation - 1990, net of unamortized original issue discount of \$0	2009	5.80%-7.80%	\$ 7,832,753	\$ -	\$ (7,832,753)	\$ -	\$ -
Certificates of participation - 1993, net of unamortized original issue discount of \$53,595	2009	4.90%	17,502,173	-	(55,768)	17,446,405	8,530,000
Certificates of participation - 1998, net of unamortized original issue discount of \$84,201 and deferral on refunding of \$2,776,200	2018	3.10%	47,415,562	-	(3,010,963)	44,404,599	3,415,000
Certificates of participation - 2003, net of unamortized original issue discount of \$1,300,527	2028	1.00%-5.25%	<u>75,242,952</u>	<u>-</u>	<u>(2,207,425)</u>	<u>73,035,527</u>	<u>2,250,000</u>
Total Certificates of Participation			147,993,440	-	(13,106,909)	134,886,531	14,195,000
Pension obligation revenue bond 2001, net of unamortized original issue discount of \$60,432	2031	5.70%-7.00%	36,231,566	-	(597,348)	35,634,218	638,600
Obligation under capital leases			5,630,777	3,394,606	(3,236,516)	5,788,867	2,320,843
Accrued vacation and sick leave			5,163,907	5,840,003	(5,186,308)	5,817,602	443,120
Land installment sale agreement			2,183,210	-	(2,183,210)	-	-
Other post employment benefits			<u>-</u>	<u>7,991,295</u>	<u>-</u>	<u>7,991,295</u>	<u>-</u>
Total Long-term Debt			<u>\$ 197,202,900</u>	<u>\$ 17,225,904</u>	<u>\$ (24,310,291)</u>	<u>\$ 190,118,513</u>	<u>\$ 17,597,563</u>

\*During 2007 the 1990 Certificate of Participation was paid in full.

# IMPERIAL IRRIGATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 5 - Long-Term Debt (Continued)

Combined Water and Energy	Maturity Dates	Range of Interest Rates	January 1, 2007	Additions	Reductions	December 31, 2007	Current Portion
Certificates of participation - 1990, net of unamortized original issue discount of \$0	2009	5.80%-7.80%	\$ 7,832,753	\$ -	\$ (7,832,753)	\$ -	\$ -
Certificates of participation - 1993, net of unamortized original issue discount of \$53,595	2009	4.90%	17,502,173	-	(55,768)	17,446,405	8,530,000
Certificates of participation - 1998, net of unamortized original issue discount of \$84,201	2018	3.10%	47,415,562	-	(3,010,963)	44,404,599	3,415,000
Certificates of participation - 2000, net of unamortized original issue premium of \$91,886	2021	3.85%-5.13%	23,488,529	-	(1,096,643)	22,391,886	1,135,000
Certificates of participation - 2002, net of unamortized original issue premium of \$748,530, net of unamortized deferral on refunding of \$900,766	2029	4.00%-5.50%	23,877,495	-	(79,731)	23,797,764	150,000
Certificates of participation - 2003, net of unamortized original issue discount of \$1,300,527	2028	1.00%-5.25%	75,242,952	-	(2,207,425)	73,035,527	2,250,000
Certificates of participation - 2004	2034	2.45%-6.10%	86,215,000	-	(700,000)	85,515,000	850,000
Total Certificates of Participation			<u>281,574,464</u>	<u>-</u>	<u>(14,983,283)</u>	<u>266,591,181</u>	<u>16,330,000</u>
Pension obligation revenue bond 2001, net of unamortized original issue discount of \$117,343	2031	5.70%-7.00%	70,352,555	-	(1,159,898)	69,192,657	1,240,000
Water loan payable	2015	4.013%	926,806	-	(109,324)	817,482	113,841
Total Bonds Payable			<u>71,279,361</u>	<u>-</u>	<u>(1,269,222)</u>	<u>70,010,139</u>	<u>1,353,841</u>
Obligation under capital leases			8,308,201	5,712,711	(4,927,466)	9,093,446	3,580,847
Accrued vacation and sick leave			9,701,276	10,548,810	(9,128,035)	11,122,051	835,475
Water installment sale agreement			5,586,258	-	(5,586,258)	-	-
Land installment sale agreement			2,910,946	-	(2,910,946)	-	-
Other post employment benefits			-	11,581,587	-	11,581,587	-
Totals			<u>\$ 379,360,506</u>	<u>\$ 27,843,108</u>	<u>\$ (38,805,210)</u>	<u>\$ 368,398,404</u>	<u>\$ 22,100,163</u>

\*During 2007 the 1990 Certificate of Participation was paid in full.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 6 - Certificates of Participation**

A. 2000 Issue – Water

On December 1, 2000, the District issued \$28,670,000 of 2000 Revenue Certificates of Participation (2000 Water System Project) (2000 COPs) to provide funds to finance the costs of construction of certain facilities and costs of preparation of certain environmental documents required for the implementation of a water transfer for the water system of the District, to fund a reserve for the implementation of a water transfer for the water system of the District, to fund a reserve fund for the 2000 COPs, and to pay costs of delivery of the 2000 COPs.

The 2000 COPs consist of \$28,670,000 serial certificates maturing in amounts ranging from \$475,000 to \$2,150,000 at rates ranging from 3.85% to 5.125% maturing on July 1, 2001 through 2021. The certificates with maturity dates on or before July 2, 2011 are subject to optional prepayment prior to their respective maturity dates, as a whole or in part, on any date on or after July 1, 2010.

The 2000 COPs were issued with an original issue premium of \$138,998 and costs of issuance of \$293,761, which are amortized over the life of the 2000 COPs. The outstanding balance of 2000 COPs was \$21,250,244 at December 31, 2008, including unamortized original issue premium of \$85,244.

The terms of the 2000 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for the years ended December 31, 2008 and 2007.

A summary of debt service for the District's outstanding 2000 COPs is as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total Debt Service</u>
July 1, 2009	\$ 1,190,000	\$ 1,071,992	\$ 2,261,992
July 1, 2010	1,255,000	1,006,542	2,261,542
July 1, 2011	1,325,000	937,518	2,262,518
July 1, 2012	1,385,000	877,892	2,262,892
July 1, 2013	1,450,000	814,182	2,264,182
July 1, 2014 - 2018	8,410,000	2,904,182	11,314,182
July 1, 2019 - 2023	6,150,000	637,164	6,787,164
Original issue premium	<u>85,244</u>		<u>85,244</u>
Totals	<u>\$ 21,250,244</u>	<u>\$ 8,249,472</u>	<u>\$ 29,499,716</u>

**Note 6 - Certificates of Participation (Continued)**

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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B. 2002 Issue – Water

On January 1, 2002, the District issued \$25,000,000 of Certificates of Participation (Water Systems Projects) (2002 COPs) to provide funds to refund the District’s \$14,320,000 outstanding aggregate principal amount of 1996 Water System Project Revenue Certificates of Participation, maturing July 1, 2003 through 2016, to finance the costs of certain improvements (the 2002 Water System Project) to the water system, and to fund a reserve fund and pay costs of delivery of the 2002 Certificates. Those 1996 COPs are considered to be defeased, and the liability for the defeased COPs has been removed from the accompanying basic financial statements.

The 2002 COPs consist of \$25,000,000 serial and term certificates. The serial certificates comprise \$2,650,000 of the issuance, mature in amounts ranging from \$125,000 to \$210,000 at rates ranging from 4.00% to 4.50% and mature on July 1, 2002 through July 1, 2016. The term certificates comprise \$22,350,000 of the issuance and mature on July 1, 2029 at a rate of 5.50%.

The 2002 COPs were issued with an original issue premium of \$958,092 and costs of issuance of \$555,076, which are amortized to interest expense over the life of the 2002 COPs. The outstanding balance of 2002 COPs was \$23,713,034 at December 31, 2008, including unamortized original issue premium of \$713,715 and deferred amount on refunding of \$800,681. The 2002 COPs Installment Purchase Contract payable solely from, and secured by, a pledge of and first lien on the net revenues of the District’s water system.

A summary of debt service for the District’s outstanding 2002 COPs is as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total Debt Service</u>
July 1, 2009	\$ 155,000	\$ 1,290,216	\$ 1,445,216
July 1, 2010	165,000	1,284,016	1,449,016
July 1, 2011	170,000	1,277,416	1,447,416
July 1, 2012	175,000	1,270,616	1,445,616
July 1, 2013	185,000	1,263,440	1,448,440
July 1, 2014 - 2018	1,050,000	6,188,270	7,238,270
July 1, 2019 - 2023	3,615,000	5,881,152	9,496,152
July 1, 2024 - 2028	15,070,000	3,459,228	18,529,228
July 1, 2029 - 2033	3,215,000	176,826	3,391,826
Original issue premium	713,715		713,715
Deferred amount on refunding	(800,681)		(800,681)
Totals	<u>\$ 23,713,034</u>	<u>\$ 22,091,180</u>	<u>\$ 45,804,214</u>

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 6 - Certificates of Participation (Continued)**

C. 2004 Issue – Water

On April 1, 2004, the District issued \$87,725,000 of 2004 Revenue Certificates of Participation (2004 Water System Project) (2004 COPs) to provide funds to finance the costs of the acquisition of land to be primarily used in connection with the implementation of a range of water conservation measures to be undertaken by the District in order to satisfy certain obligations under a series of water agreements (the 2004 Water System Project), fund a reserve fund for the 2004 Certificates, fund capitalized interest with respect to the 2004 Certificates, and pay costs of delivery of the 2004 Certificates.

The 2004 COPs consist of \$87,725,000 serial and term certificates. The serial certificates comprise \$13,740,000 of the issuance, mature in amounts ranging from \$700,000 to \$1,985,000 at rates ranging from 2.45% to 4.97% and mature on July 1, 2006 through July 1, 2014. The term certificates comprise \$73,985,000 of the issuance, mature in the amounts of \$11,590,000, \$26,575,000 and \$35,820,000 at rates ranging from 5.33% to 6.10% on July 1 of years 2019, 2027 and 2034.

The 2004 COPs were issued with costs of issuance of \$1,575,764 which are amortized over the life of the 2004 COPs. The outstanding balance of 2004 COPs was \$84,665,000 at December 31, 2008.

The terms of the 2004 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for 2008 and 2007.

A summary of debt service for the District's outstanding 2004 COPs is as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total Debt Service</u>
July 1, 2009	\$ 1,600,000	\$ 4,837,275	\$ 6,437,275
July 1, 2010	1,660,000	4,776,155	6,436,155
July 1, 2011	1,730,000	4,706,270	6,436,270
July 1, 2012	1,810,000	4,629,285	6,439,285
July 1, 2013	1,895,000	4,545,120	6,440,120
July 1, 2014 - 2018	11,010,000	21,181,888	32,191,888
July 1, 2019 - 2023	14,350,000	17,837,967	32,187,967
July 1, 2024 - 2028	19,045,000	13,145,760	32,190,760
July 1, 2029 - 2033	25,495,000	6,700,545	32,195,545
July 1, 2034 - 2038	6,070,000	370,270	6,440,270
Totals	<u>\$ 84,665,000</u>	<u>\$ 82,730,535</u>	<u>\$ 167,395,535</u>

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 6 - Certificates of Participation (Continued)**

D. 1993 Issue – Energy

In August 1993, the District issued \$44,295,000 of 1993 Refunding Certificates of Participation (1990 Electric System Project) (1993 COPs) at an average interest rate of 4.90% to advance refund \$39,380,000 of outstanding 1990 COPs, which mature on November 1, 2001, 2003, 2005, and 2009, with an average interest rate of 6.80%. The net proceeds of \$43,220,366 (after payment of \$1,074,634 in underwriting fees and other issuance costs) plus an additional \$1,197,061 of 1990 COPs reserve funds and other funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 COPs being defeased. The remaining balance of 1990 COPs defeased debt in the amount of \$39,380,000 was paid off on November 1, 2000.

Although the advance refunding resulted in the recognition of an accounting loss of \$5,132,205 for the year ended December 31, 1993, the District, in effect, reduced its aggregate debt service payments by \$2,118,243 over a seven-year period and resulted in an economic gain (difference between the present values of the old and new debt service) of \$1,333,031.

The 1993 COPs are payable annually on November 1 in amounts from \$375,000 to \$8,970,000. Interest is payable semiannually on November 1 and May 1 at rates ranging from 2.7% to 5.2%.

The 1993 COPs require maintenance of certain financial ratios with which the District has complied for the years ended December 31, 2008 and 2007.

The outstanding balance of 1993 COPs was \$8,945,639 net of unamortized original issue discount of \$24,361 at December 31, 2008.

A summary of debt service for the District's outstanding 1993 COPs is as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total Debt Service</u>
November 1, 2009	\$ 8,970,000	\$ 466,440	\$ 9,436,440
Original issue discount	<u>(24,361)</u>		<u>(24,361)</u>
Totals	<u>\$ 8,945,639</u>	<u>\$ 466,440</u>	<u>\$ 9,412,079</u>

**Note 6 - Certificates of Participation (Continued)**

E. 1998 Issue – Energy

On July 1, 1998, the District issued \$64,385,000 of 1998 Refunding Certificates of Participation (1998 Electric System Project) (1998 COPs) at an average interest rate of 3.10% to advance refund \$54,445,000 of outstanding 1994 COPs.

The 1998 COPs consist of \$64,385,000 serial and term certificates. The serial certificates comprise \$34,840,000 of the issuance, mature in amounts ranging from \$880,000 to \$4,105,000 at rates ranging from 3.87% to 5.00% and mature on November 1, 1999 through November 1, 2012. The term certificates comprise \$28,545,000 of the issuance and mature on November 1, 2018 at a rate of 5.00%.

The 1998 COPs were issued with an original issue discount of \$159,669, costs of issuance of \$853,743, and deferred amount on the 1994 COPs' refunding of \$5,199,477, which are amortized to interest expense over the life of the 1998 COPs. The outstanding balance of the 1998 COPs was defeased in 2008 through the issuance of the Electric System Refunding Revenue Bonds, Series 2008A.

Prior Year Defeasance of Debt - The 2008A Bonds defeased the 1998 COP obligation by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments. As a result, the 1998 COP's are considered defeased, and the corresponding liabilities and trust accounts assets are not included in the Balance Sheet. At December 31, 2008, \$47,265,000 of COPs outstanding are considered defeased.

F. 2003 Issue – Energy

On November 1, 2003, the District issued \$80,000,000 of 2003 Revenue Certificates of Participation (2003 Electric System Project) (2003 COPs) to provide funds to finance a portion of the costs of certain improvements (the 2003 Electric System Project) to the District's electric system, to fund a reserve fund for the 2003 Certificates, and to pay costs of delivery of the 2003 Certificates.

The 2003 COPs consist of \$80,000,000 serial and term certificates. The serial certificates comprise \$40,815,000 of the issuance, mature in amounts ranging from \$655,000 to \$3,350,000 at rates ranging from 1.00% to 5.25% and mature on November 1, 2004 through November 1, 2019. The term certificates comprise \$39,185,000 of the issuance, mature in amounts of \$15,265,000 and \$23,920,000 at rates of 5.25% and 5.00% on November 1 of years 2023 and 2028.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 6 - Certificates of Participation (Continued)**

The 2003 COPs were issued with an original issue premium of \$1,550,228 and costs of issuance of \$1,502,772, which are amortized over the life of the 2003 COPs. The outstanding balance of 2003 COPs was \$70,723,102 at December 31, 2008, including unamortized original issue premium of \$1,238,102.

The terms of the 2003 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for 2008 and 2007. A summary of debt service for the District's outstanding 2003 COPs is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
November 1, 2009	\$ 2,055,000	\$ 3,268,762	\$ 5,323,762
November 1, 2010	2,515,000	3,215,332	5,730,332
November 1, 2011	3,025,000	3,139,882	6,164,882
November 1, 2012	2,505,000	3,018,332	5,523,332
November 1, 2013	2,250,000	2,930,658	5,180,658
November 1, 2014 - 2018	14,600,000	13,022,230	27,622,230
November 1, 2019 - 2023	18,615,000	9,012,400	27,627,400
November 1, 2024 - 2028	23,920,000	3,704,250	27,624,250
Original issue premium	1,238,102	-	1,238,102
Totals	<u>\$ 70,723,102</u>	<u>\$ 41,311,846</u>	<u>\$ 112,034,948</u>

**G. 2008 Issue – Energy**

On August 5, 2008, the District issued \$250,000,000 of Electric System Refunding Revenue Bonds, Series 2008A to finance a simple cycle natural gas fired Niland plant and substantial improvements to the District's transmission facilities, to refund the Non-Taxable Commercial Paper of \$169,845,000, and to defease the remaining debt of the 1998 COP's of \$48,373,209 at an average interest rate of 5.09%. The 1998 COPs maturing on November 1, 2009 through 2018 are considered defeased and the liability for those COPs has been removed from the accompanying basic financial statements. The aggregate difference between the refunding and the prior debt service was \$4,267,228.96 with an economic gain of \$1,494,179.20.

The Series 2008A Bonds consist of \$250,000,000 serial and term certificates. The serial certificates comprise \$71,905,000 of the issuance, mature in amounts ranging from \$3,260,000 to \$4,965,000 at rates ranging from 3.00% to 5.25% and mature on November 1, 2008 through November 1, 2025. The term certificates comprise \$178,095,000 of the issuance, mature in amounts of \$14,845,000, \$67,035,000 and \$96,215,000 at rates of 5.25%, 5.00% and 5.125% on November 1 of years 2028, 2033 and 2038.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 6 - Certificates of Participation (Continued)**

The outstanding balance of Series 2008A Bonds was \$240,900,641 at December 31, 2008, including unamortized original issue discount of \$1,847,539 and deferred amount on refunding of \$3,788,318. The terms of the Series 2008A Bonds obligation indenture requires the District to maintain a certain Obligation Coverage Ratio with which the District has complied for the year ended December 31, 2008.

A summary of debt service for the District's outstanding Series 2008A Bonds is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
November 1, 2009	\$ 3,450,000	\$ 12,349,844	\$ 15,799,844
November 1, 2010	3,550,000	12,246,344	15,796,344
November 1, 2011	3,695,000	12,104,344	15,799,344
November 1, 2012	3,875,000	11,919,594	15,794,594
November 1, 2013	3,920,000	11,764,594	15,684,594
November 1, 2014 - 2018	22,665,000	55,749,819	78,414,819
November 1, 2019 - 2023	18,125,000	50,542,019	68,667,019
November 1, 2024 - 2028	23,525,000	45,248,181	68,773,181
November 1, 2029 - 2033	67,035,000	35,472,095	102,507,095
November 1, 2034 - 2038	96,215,000	15,285,056	111,500,056
Original issue discount	(1,847,539)		(1,847,539)
Deferred amount on refunding	(3,788,318)		(3,788,318)
Totals	<u>\$ 240,419,143</u>	<u>\$ 262,681,890</u>	<u>\$ 503,101,033</u>

**Note 7 - Bonds Payable**

A. 2001 Issue

On June 1, 2001, the District issued \$75,000,000 Taxable Pension Obligation Revenue Bonds, Series 2001, at interest rates ranging from 5.70% to 7.00%. Net proceeds of the bonds were used to fund the District's unfunded actuarial pension liability upon the termination of the District's defined benefit pension plan effective June 30, 2001.

The 2001 Taxable Pension Obligation Revenue Bonds consist of \$75,000,000 serial certificates maturing in amounts ranging from \$490,000 to \$5,610,000 at rates ranging from 5.7% to 7.0% maturing on January 1, 2002 through 2031.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 7 - Bonds Payable (Continued)**

The 2001 Taxable Pension Obligation Revenue Bonds were issued with an original issue discount of \$153,057 and a cost of issuance of \$1,502,073. These costs are being amortized over the life of the 2001 Taxable Pension Obligation Revenue Bonds. The outstanding balance of the 2001 Taxable Pension Obligation Revenue Bonds was \$32,959,513 for the water portion of the pension bonds and \$34,998,246 for the energy portion at December 31, 2008, including unamortized original issue discount of \$112,241.

The 2001 Taxable Pension Obligation Revenue Bonds are payable from and secured by a pledge of and lien on the utility system revenues. The amortization of interest on these Bonds is an operation and maintenance cost of the electric and water systems.

A summary of debt service for the District's outstanding 2001 Taxable Pension Obligation Revenue Bonds is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
January 1, 2009	\$ 1,320,000	\$ 4,639,104	\$ 5,959,104
January 1, 2010	1,405,000	4,550,542	5,955,542
January 1, 2011	1,495,000	4,456,292	5,951,292
January 1, 2012	1,595,000	4,355,867	5,950,867
January 1, 2013	1,700,000	4,248,780	5,948,780
January 1, 2014 - 2018	10,325,000	19,339,535	29,664,535
January 1, 2019 - 2023	14,380,000	15,135,048	29,515,048
January 1, 2024 - 2028	20,100,000	9,208,584	29,308,584
January 1, 2029 - 2033	15,750,000	1,703,450	17,453,450
Original issue discount	(112,241)		(112,241)
Totals	<u>\$ 67,957,759</u>	<u>\$ 67,637,202</u>	<u>\$ 135,594,961</u>

**B. 1988 Water Loan**

In 1988, pursuant to the State of California Clean Water Bond Law of 1984, the State of California loaned the District \$1,600,000 to pay costs associated with a water conservation program. The amounts are payable in semi-annual installments on April 1 and October 1 until the principal is repaid. Interest accrues at 4.013% per annum.

In 1990, the State of California loaned the District an additional \$680,000 to pay for eligible project costs, therefore increasing the total obligation of \$2,280,000. The unpaid balance at December 31, 2008 was \$703,753.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 7 - Bonds Payable (Continued)**

The debt service on such obligation is as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total Debt Service</u>
2009	\$ 118,249	\$ 27,062	\$ 145,311
2010	123,042	22,269	145,311
2011	128,029	17,282	145,311
2012	133,218	12,093	145,311
2013	138,731	6,693	145,424
2014-2018	<u>62,484</u>	<u>2,524</u>	<u>65,008</u>
Totals	<u>\$ 703,753</u>	<u>\$ 87,923</u>	<u>\$ 791,676</u>

**Note 8 - Capital Leases**

The District has purchased certain operating and computer equipment through lease purchase agreements expiring at various dates through fiscal year 2014. The outstanding balance was \$2,159,927 for the water portion and \$4,142,440 for the energy portion at December 31, 2008. The estimated future minimum lease payments, including interest, under these leases are as follows:

<u>Year Ending December 31,</u>	<u>Operating Equipment</u>	<u>Computer Equipment</u>	<u>Total</u>
2009	\$ 2,591,332	\$ 353,856	\$ 2,945,188
2010	1,126,312	353,856	1,480,168
2011	567,772	117,952	685,724
2012	567,772	-	567,772
2013	567,772	-	567,772
2014	<u>567,772</u>	<u>-</u>	<u>567,772</u>
Total Minimum Lease Payments	5,988,732	825,664	6,814,396
Less Amount Representing Interest	<u>(476,133)</u>	<u>(35,896)</u>	<u>(512,029)</u>
Present Value of Minimum Lease Payments	<u>\$ 5,512,599</u>	<u>\$ 789,768</u>	<u>\$ 6,302,367</u>

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 9 - 401(a) Retirement Plan**

In June 2001, the District terminated the Imperial Irrigation District Employee Pension Plan (Plan) and replaced the Plan with a new defined contribution plan (401(a)). All remaining obligations, including the District's unfunded actuarial pension liability, were funded by the net proceeds of the District's Taxable Pension Obligation Revenue Bonds, Series 2001. Plan participants were allowed to either rollover benefits to the new 401(a) plan or have an annuity purchased for them.

Under the 401(a) plan, participants in the plan may make contributions of up to 18% of their base salary. The District contributes an additional amount equal to 7% of the first 25% of each participant's plan contribution. Total contributions to the plan, including employer match, may not exceed \$40,000 for fiscal year 2008. Participants are 100% vested in all plan contributions plus actual earnings at the three-year mark. The District's contribution was \$6,020,206 and \$5,898,087 for the years ended December 31, 2008 and 2007, respectively.

**Note 10 – Inter-departmental Transactions**

Although the Water and Energy Departments of the District maintain separate accounting records, there are certain inter-departmental transactions. Significant transactions primarily involve charges by the Water Department to the Energy Department for the use of water to generate electricity on the canal system. The inter-departmental charge for use of water in the All-American Canal to generate electricity is based upon amounts authorized by the Board of Directors in 1993.

Charges for use of buildings, vehicles, and equipment are based upon a pro rata distribution of costs of related maintenance operation and depreciation. General and administrative expenses of the District are allocated between departments based on the allocation manual.

**Note 11 - Commitments and Contingencies**

**A. Coachella Valley Water District Litigation**

The District was a defendant in an action brought by the Coachella Valley Water District (CVWD) claiming breach of contract under a written contract signed by both parties in 1934.

CVWD claims that IID annually breached that contract by not paying sufficient rent to CVWD for the power potential from CVWD's portion of the All-American Canal leased to IID. The California Superior Court (Court) in large part validated the basis used by the District to calculate CVWD's annual rent. However, the Court also ordered four corrections to the rent for 1953 and all the years thereafter. After all the affected years were recalculated, pursuant to the liability ruling, on January 13, 2004, a judgment was awarded against the District of \$16,955,842, plus interest from January 13, 2004. The amount bore interest at 7% per annum simple until the judgment might be satisfied, modified, vacated, or overturned.

The judgment was affirmed on appeal and is final.

On November 28, 2007, the District paid \$22,485,178 to CVWD to fulfill its obligation under the judgment through the year 2001. This portion of the judgment is now considered closed and settled. The formula modification ordered by the court was to increase revenues by the amount of falling water charges which were taken as a deduction. Also, the deduction for the Special Electric Plant Construction Fund was disallowed, but funds that had been set aside into this fund in previous years could be deducted in the year spent. After recalculating the net proceeds the District paid \$4,499,175 on December 11, 2007 and \$292,122 on September 26, 2008 to CVWD to fulfill its obligation under the judgment for years 2002 through 2007. This obligation has been paid but not settled. Future payments to CVWD are based on the modified formula as described above and the District believes the future amounts that may be payable are not material.

**B. Self-Insurance**

The District is self-insured for workers' compensation claims and for health benefits. Excess coverage for health benefits is provided by ING. At December 31, 2008, the District accrued approximately \$2,891,485 for water and \$4,522,580 for energy for estimated workers' compensation claims to be paid in future periods. In addition, the District is partially self-insured for general claims and carries excess insurance coverage for general liability matters. In 2007, the District paid \$26,984,353 to the Coachella Valley Water District to fulfill its court ordered obligation. At December 31, 2008, the District's management has accrued \$1,050,000 for the Water Department portion and \$2,270,000 in the Energy Department portion for these estimated general liability claims. Such amounts have been included in the financial statement caption entitled "self-insurance" in the accompanying statement of net assets at December 31, 2008.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 11 - Commitments and Contingencies (Continued)**

The unpaid claims liabilities include amounts for incurred but not reported (IBNR) claims. IBNR claims are claims that are incurred through the end of the calendar year but not reported until after that date. Claim liabilities are calculated considering recent claim settlement trends including frequency.

Changes in the District's self-insurance claims liability for the two years ended December 31, 2008 are as follows:

Liability at January 1, 2007	\$ 32,693,732
Incurred claims	4,697,613
Claim payments and change in estimates	<u>(26,748,371)</u>
Liability at December 31, 2007	10,642,974
Incurred claims	892,122
Claim payments and changes in estimates	<u>(351,031)</u>
Liability at December 31, 2008	<u><u>\$ 11,184,065</u></u>

A summary of the District's self-insurance claims for the two years ended December 31, 2008 are as follows:

<u>December 31, 2008</u>	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Water	\$ 1,379,520	\$ 2,561,965	\$ 3,941,485
Energy	<u>2,534,903</u>	<u>4,707,677</u>	<u>7,242,580</u>
Totals	<u><u>3,914,423</u></u>	<u><u>7,269,642</u></u>	<u><u>11,184,065</u></u>
 <u>December 31, 2007</u>			
Water	1,370,113	2,544,495	3,914,608
Energy	<u>2,354,928</u>	<u>4,373,438</u>	<u>6,728,366</u>
Totals	<u><u>\$ 3,725,041</u></u>	<u><u>\$ 6,917,933</u></u>	<u><u>\$ 10,642,974</u></u>

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note 11 - Commitments and Contingencies (Continued)**

Excess coverage for health insurance is provided by a commercial insurance policy after payment of large deductibles, referred to as self-insurance retention. Self-insurance and commercial coverage limits are as follows:

<u>Type of Coverage</u>	<u>Self-Insurance</u>	<u>Commercial Coverage</u>
Health Benefits	Up to \$175,000 per person per year	\$2,000,000 per person lifetime maximum

**C. Take or Pay Contracts**

The District has two energy and capacity contracts with the Southern California Public Power Authority (SCPPA), a joint powers authority formed under Joint Powers Act of the California Legislature of 1980. The District purchases 6.5% of the energy generated by SCPPA's 5.91% ownership in the Palo Verde Nuclear Generating Station (the Palo Verde Project), a nuclear-fueled generating station near Phoenix, Arizona. The Palo Verde Project agreements expire in 2030. The District also purchases 50.98% of the capacity and energy generated by SCPPA's 41.8% ownership of the San Juan Generating Station Unit 3 (the San Juan Project), a coal-fueled generating station in New Mexico. The San Juan Project agreements expire in 2030.

The terms of these contracts require that the District make certain minimum payments, whether or not the District receives energy, based upon the debt service requirements of the projects. Payments for these obligations will be made from the Energy Department's operating revenues received during the year that the payment is due. The following schedule details the amount of debt service that is due and payable by the District for each project.

Fiscal Year	In \$000		
	Palo Verde Project	San Juan Project	Total SCPPA "Take or Pay" Commitment
2009	\$ 997	\$ 9,591	\$ 10,588
2010	914	9,591	10,505
2011	830	9,592	10,422
2012	829	11,316	12,145
2013-2017*	4,137	49,216	53,353
2018-2022*	4,537	51,434	55,971
2023-2027*	5,133	58,193	63,326
2028-2030*	3,398	38,525	41,923
	\$ 20,775	\$ 237,458	\$ 258,233

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 11 - Commitments and Contingencies (Continued)**

\* Debt service payments are projected, with a 2.5% escalation due to expected inflation costs, after 2016 since the SCPA budgets end at 2016.

The District also makes monthly payments to SCPA for its portion of project costs, which include charges for operation and maintenance of the electric generating plants, certain common facilities costs, and decommissioning the Palo Verde Nuclear Generating Station. Such charges are recorded by the District as cost of fuel in the Statement of Revenue, Expenses and Changes in Net Assets.

The billings for fuel, operations and maintenance, administrative and general, and other costs for these projects are as follows:

Fiscal Year	Project	In \$000		
		Fuel	Non-Fuel	Total
2007	San Juan	\$ 17,939	\$ 27,940	\$ 45,879
	Palo Verde	902	4,117	5,019
2008	San Juan	20,496	22,653	43,149
	Palo Verde	1,250	4,853	6,103

**D. Energy Supply Purchase Commitment**

1. The District has an energy supply contract with El Paso Electric Company for firm and system contingent capacity and associated energy. This agreement started in May 1, 2007 and terminates April 30, 2010. The District is committed to purchase up to 100 megawatts of firm and up to 50 megawatts of system contingent capacity in any given hour the first 2 years of the contract. In the third year, the system contingent is reduced from 50 to 40 megawatts. As of December 31, 2008, the District's estimated remaining purchase commitment under this agreement is \$28,802,000.
2. The District has an energy supply contract with the United States Department of Energy Western Area Power Administration Desert Southwest Region for the Parker Davis Project. This agreement terminates September 30, 2028. The District is committed to purchase energy up to 32 megawatts in any given hour. As of December 31, 2008, the District's estimated remaining purchase commitment under this agreement is \$36,673,561.
3. The District has entered into contracts with various vendors to purchase natural gas. These contracts vary in the amount of natural gas purchased and when the natural gas will be delivered to the District. The remaining commitment for the District as of December 31, 2008 is \$41,428,385.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 11 - Commitments and Contingencies (Continued)**

The list of contracts is as follows:

Vendor	Delivery Period	Liability (\$000)
Coral Power	June 2009	\$ 1,750
BP Energy	April 2009 to September 2010	38,578
UBS Energy	May 2009	<u>1,100</u>
Total		<u><u>\$ 41,428</u></u>

4. The District has entered into contracts with various vendors to purchase energy. These contracts vary in the amount of energy purchased, when the energy will be delivered to the District and terms. The estimated remaining commitment for the District as of December 31, 2008 is \$58,913,239 based on contract pricing.

The contracts are as follows:

Vendor	Delivery Period	Liability (\$000)
Coral Power	January 2009 to December 2017	\$ 54,535
J. Aron	June 2009 to October 2011	2,850
J. Aron	July to September 2009	<u>1,528</u>
Total		<u><u>\$ 58,913</u></u>

**E. All American Canal**

The District's Water Department was recently notified that the All American Canal project may be in violation of certain air quality permits as a result of certain air emissions from canal construction equipment used by the two primary contractors. The California Air Resource Board (CARB) recently asserted that the required Title 5 air permits were not properly acquired. The construction equipment uses fossil fuel to operate equipment and this equipment operation plus the air particulate caused by moving of high volume of dirt and concrete mixing process contribute to the air quality issue. The District believes that these asserted claims are primarily the responsibility of the construction contractors.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 11 - Commitments and Contingencies (Continued)**

In 2008, the District, along with the two construction contractors, negotiated a settlement agreement and stipulated abatement order with the Imperial County Air Pollution Control District (ICAPCD) to settle all outstanding air quality permitting issues. The California Air Resources Board, though active during the negotiated settlement, ultimately elected to remove itself from the settlement agreement and stipulated abatement order. The District believes that the California Air Resources Board does not intend to pursue further actions against either the District or its contractors relative to the All American Canal Lining Project. The District continues to believe the air quality issues settled by the two agreements with the ICAPCD remain the primary responsibility of the two contractors.

In 2009, the District, San Diego County Water Authority, and the two construction contractors reached a mediated settlement of the various air quality permitting issues related to construction of the All American Canal Lining Project. All settlement costs were distributed between the two contractors and the San Diego County Water Authority.

**F. Line of Credit**

As part of the All American Canal lining project, the District was required to post an Irrevocable Standby Line of Credit in the amount of \$1,155,150 for the benefit of the California Department of Fish and Game as beneficiary. This Line of Credit was established pursuant to the terms of the Incidental Take Permit as a security device for the performance of the District as project manager in completing its obligation under the Permit.

The Letter of Credit expires December 31, 2011, if it has not previously expired in accordance with the provisions of the Permit. All costs of this letter of credit, including any claim if needed, is reimbursed by Department of Water Resources (DWR) and/or San Diego County Water Authority (SDCWA).

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 12 - Construction Commitments**

At December 31, 2008, the District had the following commitments with respect to unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Completion Date</u>
Water:		
Various Projects	\$ 4,354,300	2009
Seepage Interceptor	1,516,900	2009
AAC Lining Project	39,086,997	2010
Power:		
Niland Gas Turbine	7,649,143	2009
Heber Upgrade-Imperial	431,515	2009
ECGS 230/92k V Xfmer Addition	1,070,000	2009
Dixieland Substation (300kV xfmr)	1,245,686	2009
KN/KS Line Upgrade (Midway to CV)	5,348,013	2009
230kv Midway to Bannister ROW Acq	3,523,500	2009
EMS Replacement System (SOC)	5,431,778	2009

**Note 13 - Other Post Employment Benefits Other Than Pensions**

During 2007, the District implemented GASB Statement 45, *Accounting and Financial Reporting for Postemployment benefits other than pensions by State and Local Governmental Employers*.

**Plan Description:**

The District provides postemployment benefits in the form of health medical benefits in accordance with District policy to qualified retirees and certain dependents. Retiree benefits primarily include medical, dental, vision, and life insurance. The District does not issue a separate financial report.

**Eligibility:**

Employees are eligible upon reaching the normal retirement age of 65 or upon early retirement at 55 with a minimum of 10 years of service. Effective October 1, 2002, an "Early Retirement Age" option was approved by the Board of Directors for employees in the "Executive" class of service. These employees have the option to retire once they obtain the age of 52 if they have a minimum of 15 years of service.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 13 - Other Post Employment Benefits Other Than Pensions (Continued)**

Membership of the plan consisted of the following at December 31, 2008

Retirees over 65 and dependents receiving benefits	469
Retirees under 65 receiving benefits	97
Total Active employees in the plan	<u>1,347</u>
Total	<u>1,913</u>

**Current Policy:**

The District pays the majority of the monthly premium for retirees depending upon the age of the employee and the number of dependents the employees included in the plan. Benefits are payable for the lifetime of the retiree, spouse, and dependent children to age 21 (or age 24 if enrolled as a full-time student). Survivor benefits are provided in the event that a retiree predeceases his/her spouse.

**Funding Policy:**

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more. The District prepared an actuarial valuation for its health insurance program during 2007 which will be utilized for fiscal years 2007-2008. The District is currently funding the Annual OPEB Obligation through revenues.

**Annual OPEB Cost and Net OPEB Obligation:**

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 13 - Other Post Employment Benefits Other Than Pensions (Continued)**

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 excess funding) not to exceed thirty years. The following table shows the components of the District's annual OPEB cost that is being utilized for fiscal years 2007-2008.

Annual required contribution	\$15,739,545
Interest on net OPEB obligation	-
Adjustment to annual required contribution (ARC)	<u>-</u>
Annual OPEB costs	15,739,545
Pay as you go contributions to the plan	<u>(4,157,958)</u>
Increase in net OPEB obligation	11,581,587
Net obligation – beginning of year	-
Net obligation – end of year	<u>\$11,581,587</u>

The District's annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and net Total OPEB obligation for 2008 and two preceding years were as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net Total OPEB <u>Obligation</u>
12/31/06	N/A	N/A	N/A
12/31/07	\$15,739,545	26.4%	\$11,581,587
12/31/08	\$15,739,545	26.4%	\$23,180,787

**Funded Status Progress:**

The District is currently in the process of looking into funding mechanisms that will meet the OPEB funding requirements. The determination of funding through revenues, debt service or a combination of both is still to be determined. For 2008, the annual required contribution for OPEB was \$15.7 million and was recorded as an expense and the \$11.6 million was recorded as liability in the district's financial statements. The district has internally reserved the \$11.6 million in a designated cash account. Total aggregated OPEB Obligation reserved for 2007-2008 is \$23.2 million. The decision on how the liability is going to be treated beyond 2008 is still to be determined. The options of establishing and funding an irrevocable trust, pay-as-you-go, or setting aside a dedicated reserve are some of the assessments under consideration.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 13 - Other Post Employment Benefits Other Than Pensions (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 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 assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. The actuarial assumptions included a 6 percent discount rate, which is a blended rate of the expected long-term investment returns on plan assets and on the District's own investments calculated based on the funded level of the plan at the valuation date, and an annual health care cost trend rate of 10 percent initially, reduced by decrements of 1 percent per year to an ultimate rate of 5 percent after the fifth year. Both rates included a 6 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 30 years. It is assumed the District's payroll will increase 3 percent pr year.

Schedule of Funding Progress  
(Amount in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Entry Age (b)	Unfunded AAL U(UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	Percentage of Covered Payroll ((b - a) / c)
12/31/2006	N/A	N/A	N/A	N/A	N/A	N/A
12/31/2007	\$ -	\$ 159,992	\$ 159,992	0.0%	\$ 93,234	171.6%
12/31/2008	\$ -	\$ 159,992	\$ 159,992	0.0%	\$ 94,065	170.1%

Schedule of Employer Contributions  
(Amount in Thousands)

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2006	N/A	N/A
2007	\$15,739	26.4%
2008	\$15,739	26.4%

**Note 14 - Metropolitan Water District Water Conservation Program**

In December 1988, the District and Metropolitan Water District of Southern California (MWD) entered into a water conservation agreement that became effective December 1989. Under the terms of the conservation agreement, MWD paid for the capital cost and continues to pay annual operation and maintenance and capital costs for specific conservation projects within the District. The purpose of such payments is to provide funds for the District to construct and maintain water conservation projects in the Imperial Valley.

In return, MWD is entitled to a quantity of water equal to the amount of water conserved by the conservation projects, which total between 100,000 and 110,000 acre-feet annually. The conserved water must be used in the calendar year the water is conserved. In 2008 and 2007, the District received \$8,152,729 and \$8,862,564 respectively, as reimbursement for approved capital, operation, and maintenance costs.

Cumulative payments received approximate \$210,366,829 at December 31, 2008. The District is to be reimbursed for approved amounts, including certain indirect costs, through the year 2028.

## IMPERIAL IRRIGATION DISTRICT NOTES TO FINANCIAL STATEMENTS

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### Note 15 - Salton Sea Authority

The District is a member of the Salton Sea Authority (Authority), a Joint Powers Authority formed in 1993 for the purpose of working with the State of California, the federal government, and the Republic of Mexico in the development of programs to ensure continued beneficial uses of the Salton Sea. These beneficial uses include its primary purpose as a depository for agricultural drainage, storm water, and wastewater flows, together with protection of endangered species, fisheries, waterfowl, and recreation.

The Authority consists of the District, the Coachella Valley Water District, Torres Martinez Indian Tribe, and the counties of Imperial and Riverside each of which appoints two voting members to the Authority's board of directors. The Authority has undertaken, or expects to undertake projects, either singularly or in cooperation with other agencies, which may relate to:

- The Salton Sea's surface elevation
- The Salton Sea's salinity
- The Salton Sea fish and wildlife
- Public recreation facilities and opportunities
- Protection and enhancement of water quality in the Salton Sea
- Reduction or elimination of threats to public health, safety, and welfare
- Conservation of water
- Encouragement of compatible planning and development adjacent to and in proximity of the Salton Sea
- Establishment of ongoing maintenance and operations programs to accomplish the purposes of the Authority
- Management of by-products resulting from projects undertaken by the Authority, including the beneficial reuse of these by-products
- Acquisition of sufficient revenues to retire debt and to fulfill the financial obligations of the Authority.

The projects planned by the Authority are expected to be funded primarily through state and federal grants, in addition to direct and in-kind funding from the members. Funds contributed by the District, which are not material to the District's basic financial statements, are expensed as incurred. Financial statements of the Authority can be obtained from the Office of the County of Riverside Executive.

**Note 16 - Trust Lands**

On February 5, 2004, the District Board of Directors approved Resolution 2-2004 which authorized the purchase of approximately 41,700 acres of land (Western Farm Lands, or Trust Lands) in order to facilitate the District's ability to perform its obligations under the District Water Conservation and Transfer Project (Transfer Project), including the District/San Diego County Water Authority Water Conservation and Transfer Agreement and the Quantification Settlement Agreement and Related Agreements (collectively, "QSA").

On April 1, 2004, the District issued Certificates of Participation (COP's) for \$87,725,000 to acquire the Western Farm Lands. The land was to be used primarily for the implementation of a range of water conservation measures and to reduce water usage through fallowing the land in order to satisfy the water transfer obligations pursuant to the 2003 Water Transfer agreement with SDCWA.

On April 13, 2004, the District entered into the 2004 Installment Purchase Contract dated April 1, 2004 in order to facilitate the acquisition of the Trust Lands from Western Farms, LP. The Western Farm Land Purchase was funded by the 2004 Taxable Revenue Certificates of Participation (2004 Water System Project) (the "Certificates") in a principal amount equal to the aggregate principal amount of the 2004 Installment Payments.

On July 26, 2005, the District adopted Resolution 18-2005 (the Original Resolution) which established a "Land Sale Disposition Policy" and authorized the sale of portions of the Western Farm Lands (Trust Lands). Resolution 5-2006, adopted on February 7, 2006 declared that the Trust Lands were no longer necessary for present or prospective purposes, and therefore, were surplus to the District needs. The Board also expressed its intent to dispose of the Trust Lands on such terms as may be in the best interest of the District.

In 2007, the District's Western Farm Land Sales were \$39 million. The proceeds from these land sales, by resolution, pay for cost of sales and reimburse the District's water department for all cost incurred for the operation, maintenance, administration and cost of debt issued to purchase the Western Farm Lands. The District's plan is to sell land to produce sufficient net proceeds to defease the related debt.

In June 2008, there was one sale of the District's Western Farm Land in the amount of \$5 million. There have been no escrow closings since June 2008.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 17 - Noncurrent Advances and Deposits from Customers**

A. San Diego County Water Authority (SDCWA) Advance

Pursuant to section 5.6 of the Revised 4<sup>th</sup> Amendment of the Quantification Settlement Agreement (QSA) SDCWA agreed to prepay \$10 million for future deliveries of water. Interest on the prepayment shall begin to accrue at the end of Agreement year 16 (2019) using SDCWA's weighted average cost of funds for its short-term and long-term debt outstanding as shown in SDCWA's annual financial report for each fiscal year ending June 30. If the District elects not to repay in total in 2019, beginning in 2019 through the end of Agreement year 2033, IID shall credit SDCWA's monthly invoice in 180 equal monthly installments of \$55,556 plus accrued interest. All amounts due SDCWA as repayment for the advance are made from the water transfer revenues. At December 31, 2008, the balance of the advance from SDCWA was \$10 million.

B. Deposits from Customers

At December 31, 2008, the District held noncurrent deposits from customers in the amounts of \$3,429,020 and \$517,325 for the Water and Energy Departments, respectively. At December 31, 2007, the balance in the Water and Energy Departments were \$3,267,834 and \$1,631,533, respectively.

**Note 18 - Quantification Settlement Agreement (QSA)/Definite Plan – Water Transfer**

The Quantification Settlement Agreement and Related Agreements are a series of contracts among the Imperial Irrigation District, San Diego County Water Authority, Coachella Valley Water District, the Metropolitan Water District of Southern California, the State of California and various of its agencies, the U.S. Department of Interior and various of its agencies, and others. The QSA and Related Agreements settle various disputes among and between the contracting parties regarding the nature, priority, volume, reasonable use and transferability of Colorado River Water. In addition, the QSA and Related Agreements provide for certain limitations on Colorado River use by certain parties, provide for the transfer of conserved water from the Imperial Irrigation District to others, provide for the transfer and sharing of conserved water by other parties with each other, and establish the right to do conserved water transfers by the parties within certain parameters. Transferors of conserved water receive substantial payments in addition to the settlement benefits of the QSA and Related Agreements. The QSA and Related Agreements also specify the environmental mitigation obligations of various parties and the payment responsibility for environmental mitigation by various parties for environmental impacts caused the QSA and Related Agreements. The term of the QSA and Related Agreements commenced in

**Note 18 - Quantification Settlement Agreement (QSA)/Definite Plan – Water Transfer  
(Continued)**

October 2003 and has a minimum term of 35 years if a termination right is exercised by the San Diego County Water Authority by the end of 2017, or a term of 45 years if that right is not exercised. Renewal for an additional 30 years will occur if both the Imperial Irrigation District and the San Diego County Water Authority consent.

Numerous lawsuits were filed relating to the QSA and Related Agreements. All the lawsuits were transferred to the Superior Court in Sacramento County for handling. The Imperial Irrigation District filed an action to determine that 13 contracts that it executed are valid and binding agreements. That action remains pending and should be resolved in late 2008 or early 2009. The County of Imperial and two regional air districts filed lawsuits contesting the State Water Resources Control Board approval of the conserved water transfers by the Imperial Irrigation District. These lawsuits have been dismissed. Several parties have challenged the environmental review process and mitigation for some of the QSA and Related Agreements and these actions remain pending and should be resolved in late 2008 or early 2009. Should the court determine that the environmental review process did not fully comply with the law, it can order additional review and/or mitigation, and allow or suspend implementation of the QSA and Related Agreements.

Lawsuits were brought by certain landowners alleging that the QSA and Related Agreements injured them and others in the aggregate amount of \$25 billion on a variety of theories including inverse condemnation, breach of fiduciary duty, and negligence. All lawsuits except one for a specific farm seeking monetary damages as a consequence of the QSA and Related Agreements being approved have now been dismissed by the court. The lone remaining lawsuit for damages is to be tried after the validation of the QSA and Related Agreements, and is for an unspecified amount.

**Note 19 - Subsequent Events**

- A. Downgrade - On May 20, 2009, the Fitch Ratings downgraded the IID's electric system and water revenue certificates of participation and the 2001 pension obligation revenue bond from AA- to A+. The Rating Outlook for the electric system bonds was revised from Negative to Stable and the water revenue bonds were placed on Rating Watch Negative.

**IMPERIAL IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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**Note 19 - Subsequent Events (Continued)**

B. Natural Gas Contracts - The District contracted on or around January 28 and February 9, 2009 for the purchase of natural gas for the months of May through August 2009 and April through September 2010 to meet part of its internal generation estimated summer needs. One of the transactions was contracted based on a fixed price while the other transaction was an option. The maximum possible impact to the District financial statements for 2009 and 2010 is \$3,603,250 and \$5,587,560, respectively. The costs will be accounted for as cost of fuel on the financial statements.

The District also contracted on March 4, 2009 a monthly call option for the right to purchase energy for the months of July through September 2010 and 2011 to meet part of its summer load requirements. The total cost of the transaction was \$2,062,500 and will be accounted for as cost of energy on the financial statements; the maximum impact to the financial statements for 2010 is \$962,500 and \$1,100,000 for 2011.