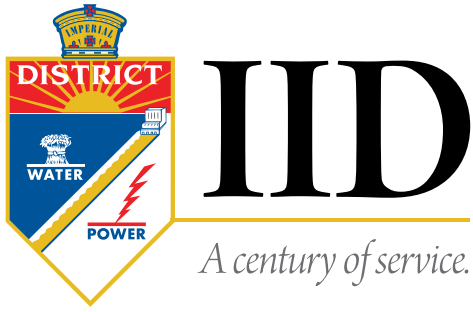
ENTERING THE **NEXT CENTURY**

IMPERIAL IRRIGATION DISTRICT

ANNUAL REPORT 2011


IMPERIAL
DISTRICT
WATER
POWER
IID
A century of service.

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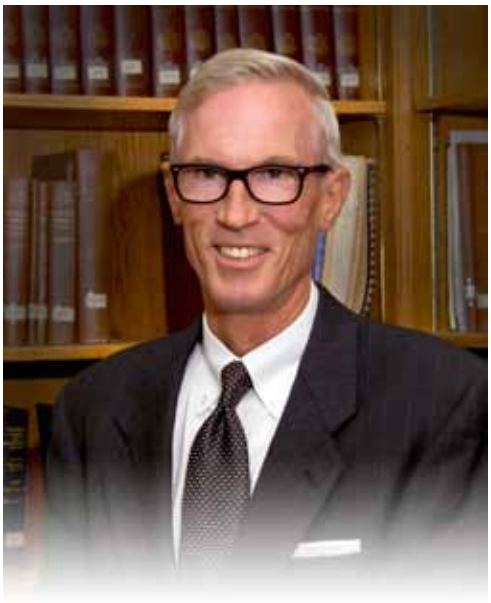


Today, the Imperial Irrigation District finds itself at an important time in history.

Having met its centennial milestone in 2011, the district clearly stands at the crossroads of change. For how we now plan, strategize and carry out our mission to do the public's business for the public good will set the direction for years to come.

It is also at this time that our organization finds a need for regeneration. And together, we realize that our best and most productive path toward reform is to redouble our commitment to serving the public and acting as a bona fide public agency.

To this end, the district is aggressively taking on a number of key initiatives, which the board has ratified as part of IID's six-point action plan.

Each point addresses key issues the district is either working on, or is expected to encounter. The plan includes water rights advocacy, optimization of our energy balancing authority, fiscal stewardship, ethical reporting, external outreach and organizational and staff development.

In drafting the action plan, we worked to build on the fiscal discipline embodied in the 2012 consolidated budget and staffing plan approved by the board. The action plan captures those programs, projects and initiatives already under way, and more importantly, anticipates emerging issues IID is likely to face across the enterprise, accompanied by tangible, measureable goals and objectives.

SHAPING THE NEXT DECADE **AND BEYOND**

Simply put, IID will be called on to make a number of far-reaching and important decisions that will shape the future direction of the district, and indeed the region, in the next decade and beyond. The plan commits to paper the initiatives and schedule from which the district will be working.

One forward-looking initiative calls for the examination of internal practices, followed by the institution of more rigorous financial controls in an effort to right-size the organization. To this end, the board of directors has adopted a plan to transition the district to a fund accounting system for fiscal year 2012, segregating resources into categories to identify source and use.

The six points are just a few of the many important steps IID is actively taking to move the public agency forward so that it can continue to deliver on its promise of public service and provide the practical and enduring value relevant to the needs of the people it serves.

KEVIN E. KELLEY
General Manager

As the Imperial Irrigation District embarks on a second century of service, I believe IID faces external challenges that go right to the heart of the kind of organization it has been for the past century, its historic mission of service and its place in the communities it serves.

On the water side, the district continues with the Quantification Settlement Agreement, which has done what it intended—enable California to live within its Colorado River entitlement and protect the Imperial Valley's water rights.

Today, the district looks on with hope in how it approaches the QSA going forward by enlisting noted water attorney Charles DuMars to assist in formulating contingency plans that preserve the district's rights and options.

There was other progress on the QSA in 2011; after waiting a few years for the Court of Appeal to rule, we learned that the valley's water conservation and transfer efforts would continue, providing some sense of stability for the district and its customers.

Elsewhere in water, IID was able to increase revenues by $500,000 through strategic land leasing, and expects another $3.1 million in earthquake reimbursements from the All-American Canal siphon repair project. With support from IID, the Imperial Integrated Regional Water Management Plan was awarded a $1 million grant. Notable, too, is the issuance of a second water supply contract under the interim water supply policy that will serve three proposed geothermal plants.

IID also made significant strides in energy, working to meet renewable portfolio standards by awarding purchased power agreements to generators in its own backyard. In fact, the district has 73 megawatts of solar energy under contract scheduled to come online in 2012 and 2013, and has been finalizing a short-term transaction to procure 10 megawatts of geothermal base-load energy and 45 megawatts of biomass base-load energy from local generators.

The district is also moving ahead with its transmission expansion plan, paving the way for the export of new green energy. IID is looking to make a strong case to remove the economic and bureaucratic barriers that unfairly penalize the generators in its project queue. It is also moving, in an unprecedented way, to negotiate with San Diego Gas & Electric and the California Independent System Operator to accommodate those generators that have elected to bypass the district in the Mount Signal area by pursuing a shared governance structure, preserving the IID board's ratemaking perogative.

Yes, the issues are many. And while they do ring with opportunity, it will be the same spirit that created the district so many years ago, of, by and for the people, which will drive us forward as we continue to protect our water rights and energy balancing authority long into the future.

JOHN PIERRE MENVIELLE
Board President, 2012

As the third largest public power provider and one of five energy-balancing authorities in California, IID serves electrical power to nearly 150,000 accounts across Imperial County and parts of Riverside and San Diego counties.

IID owns, controls and maintains its transmission network, which includes 1,415 miles of high-voltage lines across a service area of 6,471 square miles.

The district entered the energy business 76 years ago, in 1936, serving its first power customer with electricity generated from a diesel plant in Brawley. When the construction of the All-American Canal was completed, the district began delivering renewable energy through its five hydro-generation facilities.

IID is uniquely situated in one of the most productive renewable-energy regions in the world featuring significant geothermal, solar and biomass generation resources. The district continues to work at great lengths to be a catalyst for renewable-energy development in the region.

GOING GREEN: MEETING STATE RENEWABLE PORTFOLIO STANDARDS

Faced with needing to meet some of the most aggressive standards for renewable energy procurement in the country, Imperial Irrigation District led the way in 2011 in the move to "go green."

Although the district has always been a strong advocate and user of renewable energy, reaping the benefits of hydroelectric generation through its five drops along the All-American Canal for decades, IID continued to put in place many of the support mechanisms necessary for the utility to be able to substantially increase the percentage of renewable energy sources that will make up its energy resource portfolio as it moves forward.

Policy-wise, and in line with state law, the district's board of directors adopted a resolution affirming the utility's commitment to the renewable portfolio standards program. The resolution outlines IID's adherence to state requirements, including the compliance targets for delivering renewable energy into its retail load within the state-defined compliance periods. California law stipulates utilities work to meet renewable portfolio standards by year's end in three stages: 20 percent by 2013, 25 percent by 2016 and 33 percent by 2020.

PUBLIC POWER FOR **THE NEXT CENTURY**

Renewable energy resources currently make up approximately 20 percent of IID's energy portfolio. A significant part of this comes from several new projects, including solar, geothermal, biomass and biogas.

IID played a key role in one of the most exciting solar projects in the country. Ground-leveling began in January 2011 to prepare a 123-acre parcel of district property, located just north of Niland, Calif., for construction of a 20-megawatt photovoltaic project by SunPeak Solar.

Expected to be in commercial operation in 2012, the state's largest solar photovoltaic project will provide enough energy during sunlight hours to serve the entire Niland area, making it one of the nation's first totally solar-powered communities.

As part of the project, the district provided the land through a lease agreement and, through a power-purchase agreement, will transmit the energy into its system. IID also retains the option to purchase the facility in 2017.

SunPeak is one of five solar projects IID has power-purchase agreements with that make use of Imperial Valley's abundant sunshine to generate zero-emission renewable energy in the district's backyard. More than 70 megawatts of renewable energy is

expected from power-purchase agreements with the SunPeak solar project alone. The other solar projects include:

- 20 MW – SunPeak Solar #2, located north of SunPeak #1
- 20 MW – Sol Orchard, located near IID's El Centro switching station
- 10 MW – Ormat solar project, located in Heber, Calif.
- 5 MW – San Diego State University, Brawley campus, community solar project

In another area of its renewable portfolio, IID has secured a 10-year power-purchase agreement for 45 megawatts of renewable energy from the Greenleaf Power biomass facility located in IID's Riverside County community of Mecca, Calif. At an annual cost of $35 million, the district expects to deliver renewable electricity from the facility in 2012.

Located 40 miles south of Palm Springs, Calif., the biomass facility is the largest of its kind in the state. It incorporates state-of-the-art technology to generate electricity from clean urban wood waste, forest and agricultural residue. In 2012, the facility was recognized as one of the top six best renewable energy power plants in the nation, due to its impressive environmental accomplishments.

Pending approval from the California Energy Commission, IID is looking to purchase enough biogas, over a 10-year period, to generate up to 8 megawatts of energy through the district's repowered El Centro Unit 3.

As one of the most prized sources of renewable energy, and also one of the most expensive to initiate, IID has been diligently working to add geothermal to its renewable portfolio. Located in geothermal-rich Imperial County, the district is looking to secure geothermal resources.

The future for geothermal, and for IID, continues to look bright. Geothermal is a much sought-after renewable resource in that it can help utilities meet base-load energy requirements. The Imperial Valley is known as one of the most geothermal-rich areas of the world, with an estimated 2,500 megawatts of geothermal potential.

IID is also working with San Diego State University's Brawley campus to create a renewable energy center. It would serve as a focal point for research, workforce training and professional development for the renewable energy industry in the Imperial Valley.

The district is negotiating with Sol Orchard on a power-purchase agreement in connection with the renewable energy center.

The facility would help meet the demand for photovoltaic-supplied electricity and make it available when customer-sited photovoltaic generation is not a viable option. While the program would increase the use of renewable energy, it would also develop a local power source to mitigate peak demand spikes and promote sustainability.

"IID has been at the forefront of promoting renewable energy transmission for many years," stated IID Board President John Pierre Menvielle. "IID has been, and will remain, a strong proponent of renewable energy as a means of meeting California's energy needs and preserving our environment."

POWERING THE TRANSMISSION SYSTEM

IID has taken several significant steps to move its $300-million transmission system expansion initiative forward to enhance system reliability and support the boom of renewable energy development throughout its service territory.

The district's renewable energy transmission expansion plan encompasses a number of strategic projects within the IID service area. Once built, IID's transmission wheeling capacity is expected to jump up to 1,600 megawatts.

In March, the district marked what was considered the first of many transmission projects to be built in the Imperial Valley to address emerging renewable energy resources as the first phase of the Midway-to-Bannister transmission line upgrade was completed.

Referred to as the Salton Sea Transmission Line, the 12.2-mile link was constructed north of the city of Calipatria, Calif. The project consists of 8.5 miles of 230-kilovolt transmission line between IID's existing Midway substation and its proposed Bannister substation and includes a 3.7-mile generator intertie to the Hudson Ranch I geothermal project.

Community leaders joined IID in dedicating the line, noting that it will serve the geothermal industry in reliably transmitting energy for years to come. Then Board President Stella Mendoza, speaking at the dedication, said the project "serves as a win-win model that illustrates how IID and the private sector can work together to develop the needed infrastructure to address the renewable industry's needs."

This success was followed by a favorable Assigned Commissioner's Ruling (ACR) by the California Public Utilities Commission, who said that renewable energy generators within IID's balancing authority should be treated as if the requisite resource adequacy value were already in place. With the ruling, IID is confident its projects can not only compete for purchase power agreements, but win on their own merits.

The ruling enables the district's $300-million transmission initiative to move forward. A month later, IID announced the signing of generator interconnection and transmission service agreements with CalEnergy Generation, 8minutenergy, Ormat Technologies, SolarGen 2 and the Los Angeles Department of Water and Power. It was the prelude needed for the district to embark on the development phase of its transmission plan.

The district also moved forward in other areas of renewable energy development by completing the transitional generation interconnection cluster study for 945 megawatts and generator interconnection agreements for 150 megawatts of renewable energy.

Among its initiatives, IID continues to invest in major upgrades to its transmission system so locally generated renewable energy can be physically transported from the Imperial Valley to other regions across the energy grid.

Additionally, the district continues to enhance its energy generation and distribution system, making such huge investments as the construction of a natural-gas-fired power plant in Niland, Calif., which helps meet summer peak energy needs, and the monumental effort to repower the Unit 3 steam generator at the El Centro generation station. This upgrade, too, is being made to enhance reliability of the district's electric system as it incorporates more renewable-energy sources into its portfolio.

Because of the climate in IID's territory, energy use during the summer is high. The average residential customer uses slightly more than 1,000 kilowatt-hours a month. Annually, the district sells about 3.2 billion kilowatt-hours of energy to its retail customers and another 70 million kilowatt-hours in resale electricity to other energy companies.

A public-power utility governed by a local board of directors, IID offers some of the lowest energy rates in Southern California.

DISTRICT ENERGY RAPIDLY RESTORED IN MASSIVE REGIONAL OUTAGE

On the afternoon of Sept. 8, 2011, an 11-minute system disturbance occurred in the Pacific Southwest, leading to cascading outages and leaving about 2.7 million customers without power.

IID's energy customers were some of the most fortunate among them.

Despite temperatures hovering around 115 degrees, IID began restoring power service to customers within 20 minutes. While other utilities worked days to restore electrical service to their customers, IID had 99 percent of its base back up and running within six hours of the initial system-wide outage.

District energy crews accomplished the repower by tapping local generation and phasing in one area at a time.

"For all of us living in the harsh desert climate, to be without power for any length of time is difficult," said IID Director Jim Hanks, "but IID proved itself proud as our Energy Department did a stellar job in getting things back to normal."

While the exact cause remains under investigation by state and federal authorities, early on authorities suspected the cascading outages may have been triggered by the 3:27 p.m. loss of a 500-kilovolt transmission line in central Arizona. The line was serving power to IID, Arizona Public Service, San Diego Gas & Electric, the California Independent System Operator and northern Baja California, Mexico, when it went down.

In reviewing the incidents that took place, IID determined that its electric system worked as it was engineered—the systems established to protect utility equipment and customers due to energy overload worked by shutting down. Although IID's customers lost power temporarily, the system prevented further damage, which can be caused by a drop in energy.

In the aftermath of the massive outage, the IID was hailed for its emergency response. "The independence of the IID, and its reliable source of power through its own natural-gas power plants, showed us how quickly the district can act in an emergency, and how much power it can self-generate so quickly," the Imperial Valley Press editorialized days after the event.

IID is working with the Western Electricity Coordinating Council, the California Independent System Operator and other affected utilities as part of a collaborative task force, conducting a root-cause analysis of the outage to guard against it happening again.

NEW PIPELINE CURBS FUEL COSTS

IID, Arizona Public Service and TransCanada Corporation marked the completion of a critical, new, natural-gas pipeline in 2011, providing fuel to a 75-megawatt steam turbine that generates electricity for IID customers.

The partners worked to connect a 900-foot pipeline extension, meter and pressure regulation stations between the Yucca Power Plant in Yuma, Ariz., and TransCanada Corporation's North Baja Pipeline.

The project is mutually beneficial to all parties as it helps curb energy costs.

"This represents one of many efforts IID has executed to reduce the cost of producing energy," said IID Board President John Pierre Menvielle.

IID invested $4.4 million to construct the extension to connect its steam turbine unit to the international pipeline system. IID owns the pipeline infrastructure extending from the North Baja Pipeline to the Yucca Power Plant. TransCanada owns the associated pressure reduction and meter stations.

The access to this resource enables IID to reduce and better control its energy costs. By managing gas purchase and delivery, the district expects significant annual fuel savings and a reduction in exposure to natural gas price spikes. Energy generated by the Yucca Power Plant is delivered to IID on the Yucca-Pilot Knob transmission line via an APS/IID interconnection.

ENERGIZING THE LOCAL GRID

After reliably producing energy for more than half a century, IID retired its original Unit 3 generator at the El Centro Generating Station in 2010 and launched the largest energy project it has undertaken.

The Unit 3 repowering project is key in the district's long-term strategy to serve the growing energy needs across its service area. The project serves to establish a dedicated energy supply, enhancing the district's ability to stabilize its energy generation load.

The repowering project is expected to increase IID's generation capacity and overall system reliability and fuel efficiency. It will be equipped with the best available pollution control technology, meeting California's strict environmental air-quality standards.

The repowered unit will generate a nominal 140 megawatts and boost production capacity at the steam plant. The natural-gas-fired, combined-cycle project is expected to be 45 percent more fuel efficient than the previous unit.

The project represents a substantial and meaningful investment by IID. To fund the $250 million project, the district sought financing through primarily three separate electric system refunding revenue bonds, each ranging from $75 to $85 million.

In late 2011, all large components of the project, such as the gas and steam turbines and heat-recovery steam generator, had arrived from manufacturing sites as far away as Europe and Asia and were quickly erected.

On budget, the Unit 3 repowering project is a critical component in IID's long-term strategy to address the growing demand for reliable energy.

The largest irrigation district in the nation, Imperial Irrigation District delivers Colorado River water to about 500,000 acres of some of the most productive farmland in America and to nine communities across Imperial County. The district participates in a number of projects and programs to increase water conservation, improve operational efficiency, provide low rates and reliable water delivery service, while protecting Imperial Valley's water resources.

The district plays a key role in helping California live within its 4.4 million acre-foot apportionment of Colorado River water, working diligently to carry out components of the Quantification Settlement Agreement, the largest ag-to-urban water conservation and transfer agreement in the nation.

THE NEXT CENTURY **FOR WATER**

SALTON SEA RESTORATION PLAN

IID took the lead in 2011, actively seeking solutions to address the restoration of the Salton Sea, a long-impaired body of water that provides critical habitat for multiple species along the Pacific Flyway.

The district called for the state of California to fulfill its responsibility in adopting and implementing a funding plan and feasible restoration plan for the sea, which focuses on projects that provide air-quality benefits and wildlife habitat preservation, while allowing for the development of adjacent renewable energy resources. The district's action came after years of inaction by state and federal authorities.

In its petition to the State Water Resources Control Board, IID suggests eliminating the water transfer requirement to send mitigation water to the sea between 2014 and 2017, proposing that this water be transferred and the proceeds used to develop habitat and air mitigation projects that will have a better environmental impact in the long run.

"We're looking at a realistic approach to mitigating the effects of the water transfer, one that places reduced air impacts, species and habitat preservation and renewable energy development ahead of all other considerations," said Kevin Kelley, general manager. "Further, it is being advanced by the Department of Fish and Game and contemplated by IID as a model for larger-scale implementation and provides a sounder economic base on which to construct it."

Under the QSA and in anticipation of the implementation of a viable restoration alternative, IID committed to a 15-year Salton Sea mitigation strategy as part of the implementation of IID's conserved water transfers. During this period, IID agreed to incorporate fallowing to lessen the hydrological impacts of its water conservation activities, and to provide mitigation flows to the Salton Sea in an offsetting volume to address any impacts and allow for restoration planning, design, funding and implementation to occur. However, after nine years it has become apparent that the likelihood of restoration has not advanced and, in fact, due to the current economic conditions and the estimates of Salton Sea restoration costs identified in the state's programmatic environmental impact report, it is likely further from reality.

Under the district's 2011 petition, the waters that routinely run off the farms and fields of the Imperial Valley and find their way to the sea will continue as before; what would change is the volume of water produced by the district through fallowing in the last four years of what was supposed to be a 15-year window for the state to meet its restoration responsibility under the QSA.

To further the process, the district began discussing a cost-sharing agreement with the San Diego County Water Authority to fund the environmental reports needed to reduce water going to the sea, necessary under a change in the QSA.

QSA MOVES FORWARD

Eight years after the historic 2003 Quantification Settlement Agreement was signed, a sense of certainty was provided to millions of western water users when, in December, the state's 3rd District Court of Appeal reversed a lower court's ruling that had invalidated the QSA.

On appeal since 2009, when a California Superior Court judge ruled that one of the agreements making up the pact assigned by Southern California water agencies, the state and the federal government was invalid, the news of the reversal was welcomed by water officials.

"There is still considerable work to do in turning this agreement into one that is environmentally sustainable for the Salton Sea and economically viable for Imperial Valley agriculture," cautioned Kevin Kelley, IID general manager, "But this is obviously good news. It's been a long time coming."

The appellate court held that the trial court erred in finding the Joint Powers Authority Agreement unconstitutional and the appellate court rejected all of the grounds argued by the parties to possibly affirm the trial court's judgment of invalidation. In addition, the appellate court ruled that the trial court had no jurisdiction to address compliance by the water agencies concerning the National Environmental Policy Act and the Clean Air Act. The appellate court remanded the case back to the trial court to finish adjudicating remaining outstanding issues.

Heartened by the decision, IID intends to work within the framework of the QSA to make certain it works for the district, its water users and the public.

In moving forward, IID was joined by noted water attorney Chuck DuMars to develop a contingency plan for the QSA.

In 2011, IID conserved 136,000 acre-feet of water for transfer:

- 80,000 acre-feet to the SDCWA
- 16,000 acre-feet to the Coachella Valley Water District
- 40,000 acre-feet to the Salton Sea as mitigation water

In 15 years (by 2026), the QSA calls for IID to conserve and transfer up to 303,000 acre-feet (200,000 to the San Diego County Water Authority and 103,000 to the Coachella Valley Water District) through 2047.

DEDICATED TO SERVICE

Striving to provide the highest level of service to its customers, IID undertook a rather daunting task in 2011, as it worked to recover from the effects of a 7.2 magnitude earthquake that caused significant damage throughout its water conveyance system.

Altogether, the damages resulted in 195 water repair projects, the largest being the All-American Canal New River siphon. With the epicenter of the quake located just 29 miles southeast of Mexicali, Mexico, the siphon was hit hard, with a great deal of damage done to its supporting embankment.

The siphon is located just west of Calexico. It consists of two heavily supported, lengthy 15 ½-foot diameter pipes that carry about a third of IID's Colorado River water through the canal as it crosses the New River valley. This section of the canal provides water to the entire western part of the Imperial Valley.

Working with the Bureau of Reclamation, IID coordinated the repair effort that included assistance with the scope of work, estimating associated repair costs and a good portion of the design work for:

- reinforcement of north and south embankments
- stabilization of the wasteway structure
- injection of grout under the wasteway chute
- sealing of the construction joint between the box culvert and chute
- replacing the wasteway drain outlet
- installation of two vertical drains on the top embankment at each side of the box culvert
- sealing of cracks in the siphon inlet structure and wasteway
- replacing the sluiceway beneath the siphon pipes

The IID Board of Directors adopted an emergency proclamation, enabling the district to be eligible for reimbursement from the California Emergency Management Agency. After President Obama declared a major disaster, FEMA also aided state and local recovery efforts.

Completed on time and under budget, the district is in line to receive about 93 percent of the $5 million in reimbursable project costs.

IID's water right, Priority 3a, is one of the strongest on the Colorado River. The right is governed by numerous compacts, state and federal laws, court decisions and decrees, contracts and regulatory guidelines collectively known as the "Law of the River."

Organized under the state water code in 1911, as a public, not-for-profit agency, IID is governed by a five-member board of directors who provide local control and direction. Due to its nonprofit status, the district is able to offer water rates that are among the lowest in Southern California.

NATIONAL ENVIRONMENTAL RECOGNITION

IID's All-American Canal lining project was honored with a national environmental excellence award for conservation programs in 2011 by the National Association of Environmental Professionals.

IID's environmental conservation and mitigation work, associated with the construction of the new, parallel 23-mile section of concrete-lined canal, required extensive coordination among federal and state agencies, including the Border Patrol, recreationists and on-site workers to ensure that established environmental mitigation measures were efficiently and effectively implemented.

At one point, the environmental work consisted of relocating fish from the unlined canal as the water drained. Another aspect called for the establishment of a wetlands and dunes restoration area to mitigate impacts to wildlife caused by the new canal.

The district's Environmental Compliance Section had been working on developing and implementing the environmental mitigation effort since 1988. During its construction, the project was considered to be one of the largest civil engineering efforts in the country at the time.

Following a lengthy environmental process, and after legal arguments against the lining project were eventually dismissed by the 9th U.S. Circuit Court of Appeal, construction began in June 2007. The lining project was completed in 2009 with the cooperation of IID, federal and state governments and the San Diego County Water Authority.

The lined section of canal prevents the seepage of more than 67,000 acre-feet of water per year, which is enough water to serve 500,000 coastal Californians for a year. Nationally, the lining project is viewed as a critical way to conserve Colorado River water and is one of several measures of key importance to California's 4.4 Plan for limiting the state's use of Colorado River water.

The project has been hailed as a model of what can be accomplished when local water agencies and state and federal governments work collaboratively to conserve vital water supplies.

This is the second national award the All-American Canal lining project has received. In 2010, the district and its partners were recognized by the American Public Works Association, which had hailed the project as the Project of the Year in the environmental category.

WATER BOND DEFEASANCE SAVES $4.2 MILLION ANNUALLY

The district started reaping the benefits in 2011 from a series of key financial moves regarding the purchase of about 42,000 acres of Imperial Valley land.

Following the historic signing of the Quantification Settlement Agreement in 2003, the district issued certificates of participation in 2004 for about $87.7 million to facilitate the acquisition of the agricultural lands from Western Farms, LP.

The district has used the land primarily for the implementation of a range of water conservation measures and to reduce water usage through land fallowing to meet the water transfer obligations pursuant to the 2003 water transfer agreement with the San Diego County Water Authority.

In 2005, the district expressed its intent to dispose of the surplus ag lands in the best interest of the district. Proceeds from the land sales were used to pay the costs of sales and reimburse the Water Department for costs incurred in the operation, maintenance, administration and cost of debt issued to purchase the land with the goal of defeasing, or paying off, the debt.

Since then, part of the land was sold in 2006 for $36.9 million, in 2007 for $39 million and another part for $10 million in 2008. In 2009 and 2010, the district defeased $47.2 million of the 2004 water certificates of participation. The two defeasances resulted in just one outstanding term bond in the amount of $35.8 million. It is scheduled to mature in 2034, unless it is defeased earlier.

IID's debt service obligation on the remaining term bond is interest of $2.2 million annually through 2027, a savings of $4.2 million a year, which began in 2011. Before the defeasances, debt service was $6.4 million annually.

WATER PALS FORM DYNAMIC DUO

Water safety isn't just a good idea during summer any more.

IID's long-time water safety mascot Dippy Duck jumped in with the Bureau of Reclamation's Otto the Otter to make a splash with an interagency canal safety awareness consortium's year-round educational effort promoting water safety and the importance of staying out of canals and other waterways.

Similar to the way the district's long-time mascot works, Otto Otter teaches children to be safe around canals and other water sources.

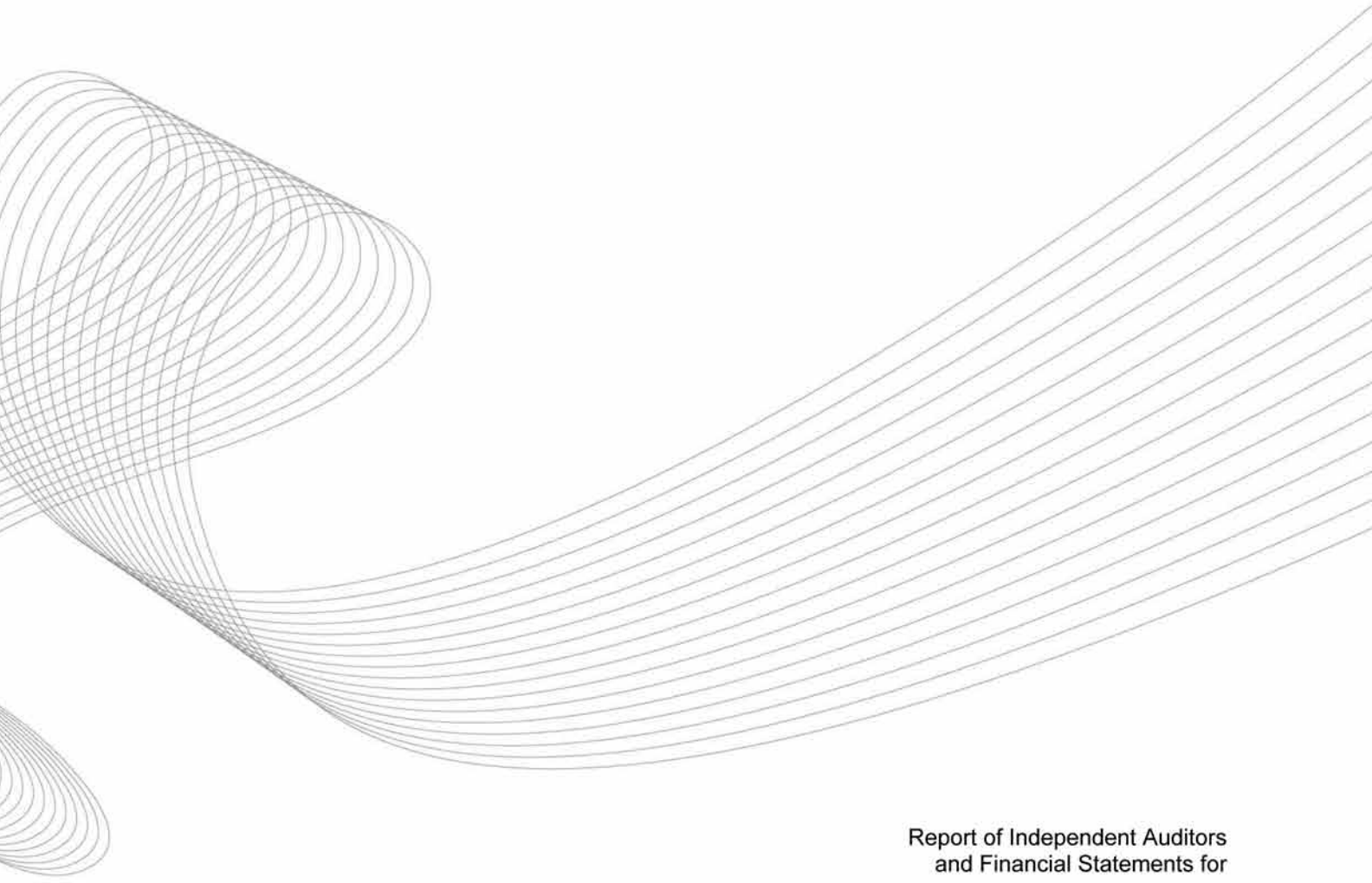
The joint water safety campaign is an interagency educational outreach to help keep undocumented immigrants, recreational dunes users and others from entering the All-American Canal. The campaign aims to reach children in Yuma, Imperial County and Mexico.

The consortium includes the Bureau of Reclamation, the U.S. Bureau of Land Management, the Mexican Consulate of Calexico, IID and the San Diego County Water Authority.

The dynamic duo's work is important: statistics show that drowning accidents are the second most common cause of death for children under the age of 14 in the United States.

Dippy, who is happy to have a friend in the water safety world, has been spreading the news about water safety for the IID for more than 40 years.

FINANCIAL **STATEMENTS**



Report of Independent Auditors
and Financial Statements for

Imperial Irrigation District

December 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Imperial Irrigation District
Imperial, California

We have audited the accompanying combined Statements of Net Assets of Imperial Irrigation District (the District) as of December 31, 2011 and 2010 and the related combined Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows for the years then ended. We have also audited the accompanying individual Statements of Net Assets of the Water and Energy Systems as of December 31, 2011 and 2010 and the related individual Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows of the Water and Energy Systems for the years 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Imperial Irrigation District as of December 31, 2011 and 2010 and the combined results of its operations and its cash flows for the years then ended, the individual financial positions of the Water and Energy Systems as of December 31, 2011 and 2010, and the individual results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 9 be presented to supplement the basic financial statements. This information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Portland, Oregon
June 19, 2012

Introduction

The management of the Imperial Irrigation District (the District) offers the following narrative discussion and analysis of the District's financial performance during the years ended December 31, 2011 and 2010. This discussion and analysis should be read in conjunction with the District's financial statements and the accompanying notes that follow this section.

Background

Situated in the agriculturally rich Imperial Valley of Southern California, the Imperial Irrigation District delivers water to approximately 521,800 acres of highly productive farmland, as well as provides wholesale water to local municipalities within its approximately 1,658 square mile service area. Established by a vote of the people in 1911, the District is the nation's largest irrigation district.

In order to take advantage of the hydroelectric generation potential of the All-American Canal, the District entered the power business in 1936 and is now the third largest public power utility in the state and is widely regarded as an economic catalyst in the Imperial and Coachella valley regions. The District provides generation, transmission, and distribution services to more than 148,000 residential, commercial, and industrial customers.

With a combined work force of approximately 1,300 employees, the District is leading the way in irrigation efficiency and innovation, while expanding the range of value-added energy services including the promotion of renewable energy resources in this dynamic desert corridor.

Setting of Rates

The District is governed by a five member board of directors (board) elected by the citizens residing within the District's water service area. The 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 a public hearing followed by formal action by the board.

Introduction to the Basic Financial Statements

This section is intended to serve as an introduction to the District's basic financial statements, which are comprised of the following: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to Financial Statements.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the financial health of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the District's net assets changed during the most recent year, reflecting 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 sales of irrigation and municipal water. All changes in net assets are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows during future periods (e.g., materials and services received but not yet paid for by the District).

The Statement of Cash Flows presents information on actual cash receipts and payments during the year.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data supplied in each of the specific financial statements described above.

The District's accounting records are maintained in accordance with accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). As a proprietary fund the District follows the accrual basis of accounting in which revenues are recognized when earned, and costs and expenses are recognized when incurred. This accounting method is similar to that followed by for-profit entities. Separate accounting records are maintained for the District's Water and Energy operations, with each being reported as an enterprise fund within the accompanying financial statements.

Summary of Financial Position

The following tables provide condensed financial information for the combined operations of the Energy and Water divisions of the District for the years ended December 31, 2011, 2010, and 2009:

	2011	2010	2009	Variance 2010 to 2011
Assets				
Utility plant, net	$ 1,927,889,568	$ 1,835,460,723	$ 1,702,328,167	5%
Other assets	729,465,733	592,650,305	561,006,258	23%
Total assets	2,657,355,301	2,428,111,028	2,263,334,425	9%
Liabilities				
Long-term liabilities	868,009,060	648,936,264	597,631,883	34%
Other liabilities	186,308,082	203,343,463	100,499,811	-8%
Total liabilities	1,054,317,142	852,279,727	698,131,694	24%
Net assets				
Invested in utility plant, net of related debt	1,388,040,402	1,398,345,041	1,302,771,571	-1%
Restricted	132,056,469	86,507,376	72,680,724	53%
Unrestricted	82,941,288	90,978,884	189,750,437	-9%
Total net assets	$ 1,603,038,159	$ 1,575,831,301	$ $ 1,565,202,732	2%

Net assets – The majority of the District's net assets reflect its investment in capital assets, less the remaining outstanding balance of debt used to acquire those assets. The District uses these capital assets to provide services to its ratepayers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other current sources including rate revenues and cash reserves since the capital assets themselves cannot be used to repay these liabilities. As shown above, the District's net assets increased in both 2011 and 2010 by $27.2 million (1.7%) and $10.6 million (1%), respectively.

The increase in net assets during 2011 is primarily the result of increases in net utility plant of $92.4 million (5%), cash and investments of $155.6 million (35.1%), as well as reductions in accounts payable and other accrued liabilities of $25.3 million (26.6%), and commercial paper borrowings of $46.5 million (84.6%). These changes were partially offset by reductions in net receivables of $13.5million (21.4%) and other assets of $5.2 million (6.1%), and increases in advances and deposits of $3.5 million (6.6%), other deferred revenues of $38.4 million (110.7%), long-term debt excluding the current portion of $214.5 million (48.8%), and accrued other post employment benefits of $14.3 million (22.5%).

The increase in net assets during 2010 is primarily the result of increases in net utility plant of $134 million (7.9%), cash and investments of $32.3 million (7.9%), and a reduction in long-term debt of $40.4 million (8.4%), excluding the current portion. These positive changes were partially offset by increases in accounts payable and other accrued liabilities of $36.3 million (61.8%), commercial paper borrowings of $40 million (266.6%), advances and deposits of $32.9 million (245.9%), deferred revenue – rate stabilization fund of $46.5 million (86.9%), other deferred revenues of $23.8 million (264.9%), and accrued other post employment benefits of $11.3 million (32.6%).

Utility plant – Net utility plant increased by $92.4 million (5%) during 2011, mainly driven by an increase in Energy utility plant of $103.2 million (5.6%). This increase was partially offset by a reduction in Water utility plant of $10.8 million (0.6%). The large increase in Energy utility plant in both 2011 and 2010 is almost entirely due to an increase in construction in progress during these periods, most of which is attributable to the repowering of the El Centro 3 generation facility.

The increase in net utility plant during 2010 of $134 million (8%) is comprised of increases in Water and Energy utility plant of $.7 million (.04%) and $133.2 million (7.9%), respectively.

Other assets – Other assets increased by $136.8 million (23.1%) in 2011 primarily as a result of an increase in cash and investments of $155.6 million, most of which is attributable to proceeds received from the 2011C refunding revenue bonds held for construction associated with the repowering of the El Centro Unit 3 generation facility. Factors partially offsetting this rise include decreases in net receivables of $13.5 million, prepaid expenses of $2.9 million, inventory of $1.3 million, and prepaid pension obligations of $2.4 million, plus an increase in deferred costs of $1.4 million.

In 2010 other assets increased by $30.8 million (5%) primarily as a result of an increase in cash and investments of $32.2 million. Other factors that led to the increase in other assets include increases in net receivables of $3.7 million, prepaid expenses of $2.5 million, offset by decreases in inventory of $3.8 million, prepaid pension obligations of $2.5 million, and deferred costs for protection of water rights of $.9 million.

Long-term liabilities – Long-term liabilities increased by $219.1 million (33.8%) in 2011, primarily as a result of the issuance of refunding revenue bonds used to repay short-term commercial paper borrowings. The proceeds of the commercial paper were used to fund construction related to the repowering of the El Centro Unit 3 generation facility. Net new long-term debt related to this refunding totaled $231 million at year end 2011. This increase was partially offset by the full refunding of the 2002 Water COPs, and partial refunding of the 2003 Energy COPs yielding a net reduction in long-term debt of $5.4 million, as well as by other debt service payments in 2011 of $6.7 million. Additional reductions in long-term debt include decreases in capital leases of $4.3 million and advances of $2.7 million, and by the reclassification of $7 million of the advance payment from the San Diego County Water Authority (SDCWA) related to the Quantification Settlement Agreement to short-term. Other factors contributing to this year's change in long-term liabilities include increases in accrued other post employment benefits of $12.9 million, and other accrued employee related liabilities of $1.3 million.

In 2010 long-term liabilities increased by $51.3 million (9%) primarily as a result of deferring $46.5 million in revenue, and classifying as long-term $32 million of the total $50 million received as an advance payment from the San Diego County Water Authority related to the Quantification Settlement Agreement. Other contributing factors include increases in accrued other post employment benefits of $11.3 million, other accrued employee related liabilities of $1 million, and a decrease in long-term debt less the current portion of $40.4 million. The majority of the decrease in long-term debt is attributable to the defeasance of $26.6 million of the 2004 Water COPs during 2010.

Other liabilities – Other liabilities decreased by $17 million (8.4%) during 2011 as a result of a reduction in borrowings under the District's commercial paper program of $46.5 million and a decrease in accounts payable of $27.6 million. These reductions were partially offset by a net increase in other deferred revenue of $38.4 million, which is comprised of $38 million in deferred revenue related to the Energy Cost Adjustment, $7.5 million related to the fallowing shortfall (See Note 11) and $3.9 million related to Local entity, less an $11 million reduction in SDCWA deferred revenue resulting from the recognition of $18 million in revenue during 2011, and the transfer of $7million from long-term liabilities to short-term during 2011. Other increases include customer deposits of $13.3 million and other accruals of $2.3 million.

Other liabilities increased by $102.8 million (102%) during 2010 as a result of an increase in borrowings through the District's commercial paper program of $40 million, an increase in accounts payable of $36.7 million representing invoices for energy construction work in progress, and an increase in other deferred revenue of $23.8 million, $18 million of which represents the current portion of the advance payment from the San Diego County Water Authority.

Summary of Operations and Changes in Net Assets

Increases in the District's net assets for fiscal years 2011, 2010, and 2009 were $27.2 million (1.7%), $10.6 million (1%), and $48.5 million (3%), respectively. The table below summarizes the revenues and expenses of the District for the years 2011, 2010, and 2009.

	2011	2010	2009	Variance 2010 to 2011
Operating revenues				
Water operating revenues	$ 140,571,521	$ 109,752,104	$ 107,822,024	28%
Power operating revenues	389,676,958	390,246,450	398,483,397	0%
Total operating revenues	530,248,479	499,998,554	506,305,421	6%
Operating expenses				
Purchased power	144,156,350	148,539,700	151,517,044	-3%
Cost of fuel	56,402,138	56,970,682	53,739,688	-1%
Other power expenses	115,850,232	115,581,594	113,921,363	0%
All-American Canal operations	8,487,936	9,475,388	9,458,142	-10%
Operation and maint. of irrigation systems and dams	81,926,732	80,879,872	80,968,572	1%
General and administrative	18,770,511	19,472,397	20,870,129	-4%
Depreciation	80,419,234	77,768,371	70,822,569	3%
Total operating expenses	506,013,133	508,688,004	501,297,507	-1%
Nonoperating revenues (expenses)				
Investment income	7,882,620	5,979,671	10,081,554	32%
Interest expense	(26,987,640)	(25,864,636)	(27,211,334)	4%
Net gain on sale of land	-	-	31,762	0%
Other income	5,014,659	10,892,137	5,124,363	-54%
Total nonoperating revenues (expenses)	(14,090,361)	(8,992,828)	(11,973,655)	57%
Capital contributions	17,061,873	28,310,848	55,451,623	-40%
Increase in net assets	27,206,858	10,628,570	48,485,882	156%
Total net assets, beginning of year	1,575,831,301	1,565,202,731	1,516,716,850	1%
Total net assets, end of year	$ 1,603,038,159	$ 1,575,831,301	$ 1,565,202,732	2%

Water revenues – Water revenues increased by $30.8 million (28.1%) in 2011 as a result of an increase in the agricultural water rate, moving from $19 per acre-foot from January through December 2010, to $20 per acre-foot from January through December 2011. Water revenues also increased as a result of an increase in the water transfer rate, moving from $405 per acre foot in 2010 to $446 per acre foot in 2011, plus a volume increase in water transferred to the San Diego County Water Authority and the Coachella Valley Water District. This increase was partially offset by the deferral of approximately $7.5 million in water transfer revenue related to a potential shortfall in the amount of conserved water generated through fallowing during the 2011 calendar year.

The $1.9 million (2%) increase in water revenues in 2010 resulted from an increase in the agricultural water rate, moving from $17 per acre-foot from January – July 2009, and $18 per acre-foot from August – December 2009, to $19 per acre-foot from January through December 2010.The increase in water revenues also reflected an increase in water transfer deliveries to the San Diego County Water Authority.

Power revenues – Power revenues decreased by $0.56 million (.15%) in 2011 reflecting a net reduction of approximately $50 million in revenue generated through the Energy Cost Adjustment during 2011, the impact of which was largely offset by the effect on prior year revenues of deferring $46.5 million in 2010. The net reduction in revenue generated through the Energy Cost Adjustment reflects a small volume increase representing approximately $3.3 million in revenue, offset by a decrease of $15.8 million due to a rate reduction from $.0501 per kWh for the period from January through June, 2011 to $.0419 per kWh for the period from July through December 2011, as well as the current year deferral of $38 million in Energy Cost Adjustment revenue representing 2011 collections in excess of covered power supply costs. Other factors that contributed to the change in power revenues include a small increase in energy demand representing approximately $4.8 million in revenue, and a reduction in other revenues of approximately $1.8 million.

The reduction in power revenues in 2010 of $8.2 million (2%) is a result of lower energy demand of approximately 5% due to lower temperatures, and the deferral of $46.5 million in revenues increasing the Rate Stabilization Fund to the maximum board approved limit of $100 million.

Operating expenses – Operating expenses decreased by $2.67 million (.53%) in 2011 primarily as a result of a reduction of $4.9 million in the cost of purchased energy and fuel continuing the trend of reduced market prices. Operating expenses were also lower due to a reduction $0.98 million in All-American Canal maintenance costs and $0.70 million of General & administrative expenses. These reductions were partially offset by an increase of $.27 million in other Energy expenses, $2.65 million in depreciation expense resulting from a net increase in capital assets being depreciated, and other increases including $1 million in irrigation system and dam operation and maintenance costs.

Operating expenses increased by $7.4 million (1%) in 2010 primarily as a result of a $6.9 million increase in depreciation expense resulting from a net increase in capital assets being depreciated. Other increases include an increase of $3.2 million in the cost of fuel and a $1.7 million increase in other operating expenses. These increases were partially offset by a reduction of $3 million in purchased power reflecting the continued trend of lower market prices and a reduction in general and administrative expenses of $1.4 million.

Non-operating revenues and expenses – Non-operating expenses net of non-operating revenues increased by $5 million (56.7%) in 2011 primarily due to a reduction in other income of $5.8 million reflecting the absence of significant insurance reimbursements of legal fees received in the prior year. The increase in net expenses also reflects an increase in interest expense of $1.1 million stemming from the new financing related to the El Centro Unit 3 repowering project, offset by an increase in investment income of $1.9 million

Non-operating expenses net of non-operating revenues decreased by $3 million (25%) in 2010 reflecting a reduction in interest expense of $1.3 million, as well as an increase in other income of $5.8 million attributable primarily to insurance reimbursement of legal fees. These positive changes were partially offset by a reduction in interest income of $4.1 million reflecting the maturing of older investments followed by re-investment at today's lower market interest rates.

Capital contributions – Capital contributions represent funds received from state and federal agencies, as well as private developers, for the construction and acquisition of capital assets. Capital contributions declined in both 2011 and 2010 by $11.2 million and $27.1 million, respectively, as a result of a reduction in FEMA / Cal-ema earthquake reimbursements and lower Cal- Trans work as well as the completion of the All-American Canal and the associated decrease in related reimbursements.

Utility Plant and Debt Administration

	2011	2010	2009
Utility plant, not being depreciated			
Land and land rights	$ 67,646,803	$ 70,254,472	$ 68,382,588
Construction in process	295,538,022	205,507,363	129,435,403
Total utility plant, not being depreciated	363,184,825	275,761,835	197,817,991
Utility plant, being depreciated			
Structures and improvements	110,064,580	108,093,944	107,028,922
Dredges and field equipment	16,995,445	17,500,571	16,345,780
Automobiles and trucks	28,266,267	27,663,130	27,992,239
Other plant equipment	151,649,122	143,742,862	133,829,748
Steam plant equipment	128,056,861	126,466,600	126,031,526
Hydroelectric generating equipment	37,292,906	37,172,973	36,086,947
Gas turbines	132,145,314	132,145,314	132,101,289
Transmission plant	348,497,528	331,795,331	326,396,578
Distribution plant	827,210,839	794,900,253	762,093,155
Roads, railroads, and bridges	3,933,706	3,933,706	3,933,706
Reservoirs and dams	9,400,163	9,400,163	9,400,163
Canals	280,346,073	277,001,476	274,700,311
Drainage	105,466,817	99,185,360	91,695,892
All-American Canal	321,921,728	310,961,120	245,925,995
Total utility plant, being depreciated	2,501,247,349	2,419,962,803	2,293,562,251
Protection of water rights	30,555,094	30,555,094	30,555,094
Less accumulated depreciation	(955,979,604)	(880,573,916)	(810,235,079)
Less accumulated amortization	(11,118,096)	(10,245,093)	(9,372,090)
Total utility plant, being depreciated, net	1,564,704,743	1,559,698,888	1,504,510,176
Utility plant, net	$ 1,927,889,568	$ 1,835,460,723	$ 1,702,328,167

Utility plant – Net utility plant increased by $92.4 million (5%) in 2011 and $134 million (8%) in 2010, both primarily due to increases in construction in progress related to the repowering of the El Centro Unit 3 generation plant and increases in distribution facilities.

Additional information on the District's utility plant assets may be found in Note 3 of the Notes to Financial Statements accompanying this report.

Long-term debt – The District's outstanding debt obligations, including both the current and long-term portions, consisted of the following as of December 31:

	2011	2010	2009
Certificates of participation	$ 73,514,324	$ 116,290,002	$ 174,677,582
Revenue bonds	526,934,743	260,593,965	237,159,116
Capital leases	6,115,918	11,086,351	13,915,512
Pension obligation bonds	63,753,064	65,242,963	66,642,859
State loan	334,609	462,764	585,928
Total long term debt	$ 670,652,658	$ 453,676,045	$ 492,980,997

The District's total debt, including both the current and long-term portion, increased by $217 million in 2011 largely as a result of new financing for Energy's El Centro Unit 3 repowering project. Financing for this project was provided by proceeds from revenue bond series 2011A, B and C totaling $234.5 million. These new borrowings were partially offset by savings generated from the refunding of the 2003 Energy COPs resulting in net debt reduction of $3 million and the refunding of the entire outstanding balance of the 2002 Water COPs resulting in a net debt reduction of $2.5 million. The combined average annual reduction in debt service stemming from the refunding of these COPs totals approximately of $398,000.

During 2010 total debt decreased by $39.3 million primarily due to the defeasance of $26.6 million of the 2004 Water COPs. In addition the District refunded the entire outstanding balance of the 2000 Water COPs of $18.7 million, and partially refunded $9.1 million of the 2002 Water COPs. The net present value savings on the refunding of these COPs was $3.6 million with an average annual reduction in debt service of $300,000.

Additional information on the District's long-term debt may be found in Note 5 of the Notes to Financial Statements accompanying this report.

IMPERIAL IRRIGATION DISTRICT
STATEMENTS OF NET ASSETS

ASSETS	As of December 31, 2011			As of December 31, 2010		
	Water	Energy	Total	Water	Energy	Total
CURRENT ASSETS						
Cash and cash equivalents						
Unrestricted	$ 33,708,578	$ 62,061,275	$ 95,769,853	$ 27,341,863	$ 48,637,070	$ 75,978,933
Restricted	26,741,162	72,574,536	99,315,698	36,028,215	5,338,443	41,366,658
Total cash and cash equivalents	60,449,740	134,635,811	195,085,551	63,370,078	53,975,513	117,345,591
Investments – current	11,664,861	18,389,698	30,054,559	26,606,684	42,248,476	68,855,160
Receivables						
Trade	8,259,587	39,266,327	47,525,914	8,407,657	44,662,779	53,070,436
Interest	598,348	809,171	1,407,519	490,593	1,164,684	1,655,277
Other	4,232,423	2,405,364	6,637,787	13,042,743	3,365,726	16,408,469
Total receivables	13,090,358	42,480,862	55,571,220	21,940,993	49,193,189	71,134,182
Less allowance for doubtful accounts	(805,278)	(4,860,767)	(5,666,045)	(1,113,984)	(6,555,188)	(7,669,172)
Net receivables	12,285,080	37,620,095	49,905,175	20,827,009	42,638,001	63,465,010
Inventory – materials and supplies	1,126,285	18,254,153	19,380,438	1,075,916	19,568,905	20,644,821
Prepaid expenses	1,403,852	4,341,646	5,745,498	1,569,388	7,139,199	8,708,587
Total current assets	86,929,818	213,241,403	300,171,221	113,449,075	165,570,094	279,019,169
NONCURRENT ASSETS						
Utility plant						
Utility plant, not being depreciated:						
Land and land rights	51,610,219	16,036,584	67,646,803	54,217,888	16,036,584	70,254,472
Construction in process	29,802,027	265,735,995	295,538,022	37,816,047	167,691,316	205,507,363
Utility plant, being depreciated	778,768,980	1,722,478,369	2,501,247,349	756,459,246	1,663,503,557	2,419,962,803
Protection of water rights	30,555,094	-	30,555,094	30,555,094	-	30,555,094
Total utility plant	890,736,320	2,004,250,948	2,894,987,268	879,048,275	1,847,231,457	2,726,279,732
Less accumulated depreciation	(211,786,336)	(744,193,268)	(955,979,604)	(190,167,176)	(690,406,740)	(880,573,916)
Less accumulated amortization	(11,118,096)	-	(11,118,096)	(10,245,093)	-	(10,245,093)
Total utility plant, net	667,831,888	1,260,057,680	1,927,889,568	678,636,006	1,156,824,717	1,835,460,723
Investments – long-term	145,135,903	228,807,313	373,943,216	99,406,259	157,846,157	257,252,416
Other assets						
Prepaid pension obligation	23,316,271	24,743,695	48,059,966	24,511,368	26,012,716	50,524,084
Deferred charges	1,536,906	5,754,424	7,291,330	1,670,022	4,184,614	5,854,636
Total other assets	24,853,177	30,498,119	55,351,296	26,181,390	30,197,330	56,378,720
Total noncurrent assets	837,820,968	1,519,363,112	2,357,184,080	804,223,655	1,344,868,204	2,149,091,859
Total assets	$ 924,750,786	$ 1,732,604,515	$ 2,657,355,301	$ 917,672,730	$ 1,510,438,298	$ 2,428,111,028

See accompanying notes.

IMPERIAL IRRIGATION DISTRICT
STATEMENTS OF NET ASSETS

	As of December 31, 2011			As of December 31, 2010		
	Water	Energy	Total	Water	Energy	Total
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Payable from unrestricted assets						
Accounts payable	$ 10,326,802	$ 36,442,403	$ 46,769,205	$ 13,448,552	$ 60,932,814	$ 74,381,366
Accrued interest payable	2,866,991	5,888,900	8,755,891	2,483,372	4,442,974	6,926,346
Accrued compensation and payroll taxes	1,421,978	1,029,882	2,451,860	996,640	1,412,971	2,409,611
Accrued vacation and sick leave	1,047,179	951,128	1,998,307	1,004,808	553,791	1,558,599
Self-insurance	1,879,191	4,182,789	6,061,980	1,673,486	3,795,047	5,468,533
Capital leases – current portion	1,307,459	2,374,757	3,682,216	1,885,678	2,432,387	4,318,065
Total payable from nonrestricted assets	18,849,600	50,869,859	69,719,459	21,492,536	73,569,984	95,062,520
Liabilities payable from restricted assets:						
Obligation bonds/state loans payable – current portion	906,888	821,425	1,728,313	853,207	769,925	1,623,132
Certificates of participation/revenue bonds – current portion	1,690,000	9,865,000	11,555,000	1,850,000	6,720,000	8,570,000
Commercial paper	8,445,000	-	8,445,000	15,000,000	40,000,000	55,000,000
Advances and deposits from customers	30,933	21,701,595	21,732,528	30,933	8,347,672	8,378,605
Total liabilities payable from restricted assets	11,072,821	32,388,020	43,460,841	17,734,140	55,837,597	73,571,737
Deferred revenue – water availability charges	9,321,936		9,321,936	1,907,021		1,907,021
Other deferred revenue	23,852,428	39,953,418	63,805,846	30,929,646	1,872,539	32,802,185
Total current liabilities	63,096,785	123,211,297	186,308,082	72,063,343	131,280,120	203,343,463
NONCURRENT LIABILITIES						
Long-term debt						
Certificates of participation/revenue bonds	71,426,686	517,467,381	588,894,067	75,206,628	293,107,339	368,313,967
Obligation bonds payable/state loans	30,347,957	32,011,403	62,359,360	31,252,394	32,830,201	64,082,595
Capital leases	1,018,285	1,415,417	2,433,702	3,282,436	3,485,850	6,768,286
Total long-term debt	102,792,928	550,894,201	653,687,129	109,741,458	329,423,390	439,164,848
Other noncurrent liabilities						
Advances	36,215,224	344,897	36,560,121	45,322,540	996,355	46,318,895
Accrued other post employee benefits	21,045,980	37,892,147	58,938,127	16,310,799	29,634,208	45,945,007
Accrued vacation and sick leave, noncurrent portion	5,295,849	6,169,871	11,465,720	5,000,548	6,251,120	11,251,668
Self-insurance	2,319,927	5,038,036	7,357,963	1,937,902	4,317,944	6,255,846
Deferred revenue – rate stabilization fund	-	100,000,000	100,000,000	-	100,000,000	100,000,000
Total other noncurrent liabilities	64,876,980	149,444,951	214,321,931	68,571,789	141,199,627	209,771,416
Total noncurrent liabilities	167,669,908	700,339,152	868,009,060	178,313,247	470,623,017	648,936,264
Total liabilities	230,766,693	823,550,449	1,054,317,142	250,376,590	601,903,137	852,279,727
NET ASSETS						
Invested in utility plant, net of related debt	585,481,365	802,559,037	1,388,040,402	583,081,286	815,263,755	1,398,345,041
Restricted	41,726,416	90,330,053	132,056,469	39,845,026	46,662,350	86,507,376
Unrestricted	66,776,312	16,164,976	82,941,288	44,369,828	46,609,056	90,978,884
Total net assets	693,984,093	909,054,066	1,603,038,159	667,296,140	908,535,161	1,575,831,301
Total liabilities and net assets	$ 924,750,786	$ 1,732,604,515	$ 2,657,355,301	$ 917,672,730	$ 1,510,438,298	$ 2,428,111,028

See accompanying notes.

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

	For the year ended December 31, 2011			For the year ended December 31, 2010		
	Water	Energy	Total	Water	Energy	Total
OPERATING REVENUE						
Energy sales	$ -	$ 271,311,244	$ 271,311,244	$ -	$ 266,458,560	$ 266,458,560
Water sales	57,058,468	-	57,058,468	48,197,783	-	48,197,783
Water availability charges	1,953,597	-	1,953,597	1,974,708	-	1,974,708
Interdepartmental charges:						
Use of All-American Canal	7,402,100	(7,402,100)	-	7,160,600	(7,160,600)	-
Energy sales	(1,849,033)	1,849,033	-	(1,694,363)	1,694,363	-
Dispatching and wheeling charges	-	15,129,700	15,129,700	-	14,844,600	14,844,600
ECA revenues	-	108,589,764	108,589,764	-	158,613,331	158,613,331
Less: Deferred revenue – rate stabilization fund	-	-	-	-	(46,500,000)	(46,500,000)
Water funds						
MWD revenue	10,365,838	-	10,365,838	10,521,698	-	10,521,698
Western Farms Land proceeds	1,738,493	-	1,738,493	1,886,797	-	1,886,797
Water transfer revenue	47,320,068	-	47,320,068	29,156,160	-	29,156,160
Other	16,581,990	199,317	16,781,307	12,548,721	2,296,196	14,844,917
Total operating revenue	140,571,521	389,676,958	530,248,479	109,752,104	390,246,450	499,998,554
OPERATING EXPENSE						
Purchased energy	-	144,156,350	144,156,350	-	148,539,700	148,539,700
Cost of fuel	-	56,402,138	56,402,138	-	56,970,682	56,970,682
Other energy expenses	-	115,850,232	115,850,232	-	115,581,594	115,581,594
Operation and maintenance of All-American Canal	8,487,936	-	8,487,936	9,475,388	-	9,475,388
Operation and maintenance of irrigation system and dams	81,926,732	-	81,926,732	80,879,872	-	80,879,872
General and administration expense	7,025,640	11,744,871	18,770,511	6,563,643	12,908,754	19,472,397
Provision for depreciation and amortization	24,290,179	56,129,055	80,419,234	24,013,849	53,754,522	77,768,371
Total operating expense	121,730,487	384,282,646	506,013,133	120,932,752	387,755,252	508,688,004
Operating income (loss)	18,841,034	5,394,312	24,235,346	(11,180,648)	2,491,198	(8,689,450)
NONOPERATING REVENUE (EXPENSE)						
Investment income	2,728,222	5,154,398	7,882,620	2,715,710	3,263,961	5,979,671
Interest expense	(4,297,829)	(22,689,811)	(26,987,640)	(9,856,091)	(16,008,545)	(25,864,636)
Other income	2,694,404	2,320,255	5,014,659	8,079,472	2,812,665	10,892,137
Total nonoperating revenue (expense)	1,124,797	(15,215,158)	(14,090,361)	939,091	(9,931,919)	(8,992,828)
Income (loss) before capital contributions	19,965,831	(9,820,846)	10,144,985	(10,241,557)	(7,440,721)	(17,682,278)
CAPITAL CONTRIBUTIONS	6,722,122	10,339,751	17,061,873	18,606,918	9,703,930	28,310,848
Increase in net assets	26,687,953	518,905	27,206,858	8,365,361	2,263,209	10,628,570
NET ASSETS, beginning of year	667,296,140	908,535,161	1,575,831,301	658,930,779	906,271,952	1,565,202,731
NET ASSETS, end of year	$ 693,984,093	$ 909,054,066	$ 1,603,038,159	$ 667,296,140	$ 908,535,161	$ 1,575,831,301

See accompanying notes.

IMPERIAL IRRIGATION DISTRICT
STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2011			For the year ended December 31, 2010		
	Water	Energy	Total	Water	Energy	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	$ 135,207,226	$ 452,370,183	$ 587,577,409	$ 149,901,081	$ 451,749,299	$ 601,650,380
Cash paid to suppliers for goods and services	(7,025,641)	(11,744,871)	(18,770,512)	(6,563,643)	(12,908,754)	(19,472,397)
Cash transfers for interdepartmental services	5,553,067	(5,553,067)	-	5,466,237	(5,466,237)	-
Cash paid for energy and water costs	(87,335,330)	(325,872,639)	(413,207,969)	(87,719,032)	(269,706,446)	(357,425,478)
Net cash from operating activities	46,399,322	109,199,606	155,598,928	61,084,643	163,667,862	224,752,505
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Other non-operating income	2,694,404	2,320,255	5,014,659	8,079,472	2,812,665	10,892,137
CASH FLOWS FROM CAPITAL AND RELATED FINANCING						
Proceeds from issuance of commercial paper	(6,555,000)	(40,000,000)	(46,555,000)	-	40,000,000	40,000,000
Proceeds from issuance of long-term debt	13,554,822	259,854,810	273,409,632	27,716,686	926,143	28,642,829
Principal payments on long-term debt	(21,187,890)	(35,245,129)	(56,433,019)	(58,641,590)	(9,306,190)	(67,947,780)
Interest paid on long-term debt	(3,914,210)	(21,243,885)	(25,158,095)	(11,414,896)	(15,849,159)	(27,264,055)
Capital expenditures	(16,643,458)	(159,529,470)	(176,172,928)	(24,916,772)	(186,161,818)	(211,078,590)
Sale of capital assets	9,466,733	-	9,466,733	-	-	-
Capital contributions	6,722,122	10,339,751	17,061,873	18,606,918	9,703,930	28,310,848
Net cash from capital and related financing activities	(18,556,881)	14,176,077	(4,380,804)	(48,649,654)	(160,687,094)	(209,336,748)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	1,883,321	3,783,889	5,667,210	3,072,462	5,208,035	8,280,497
Sale (purchase) of investments, net	(35,340,504)	(48,819,529)	(84,160,033)	(56,405,156)	(46,423,595)	(102,828,751)
Net cash from investing activities	(33,457,183)	(45,035,640)	(78,492,823)	(53,332,694)	(41,215,560)	(94,548,254)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,920,338)	80,660,298	77,739,960	(32,818,233)	(35,422,127)	(68,240,360)
CASH AND CASH EQUIVALENTS, beginning of year	63,370,078	53,975,513	117,345,591	96,188,311	89,397,640	185,585,951
CASH AND CASH EQUIVALENTS, end of year	$ 60,449,740	$ 134,635,811	$ 195,085,551	$ 63,370,078	$ 53,975,513	$ 117,345,591

See accompanying notes.

IMPERIAL IRRIGATION DISTRICT
STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2011			For the year ended December 31, 2010		
	Water	Energy	Total	Water	Energy	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Operating (loss) income	$ 18,841,034	$ 5,394,312	$ 24,235,346	$ (11,180,648)	$ 2,491,198	$ (8,689,450)
ADJUSTMENTS TO RECONCILE OPERATING (LOSS) INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Provision for depreciation and amortization	24,290,179	56,129,055	80,419,234	24,013,849	53,754,522	77,768,371
Provision for bad debts	-	1,615,413	1,615,413	-	2,678,958	2,678,958
Other post-employment benefits expense	4,735,182	8,257,940	12,993,122	4,099,273	7,201,010	11,300,283
(Increase) decrease in assets and increase (decrease) in liabilities						
Trade accounts receivable	148,070	5,396,452	5,544,522	(924,524)	4,246,354	3,321,830
Other receivables	8,810,320	960,362	9,770,682	(7,704,340)	1,244,773	(6,459,567)
Inventories	(50,369)	1,314,752	1,264,383	211,027	3,593,462	3,804,489
Prepaid expenses	165,536	2,797,553	2,963,089	(860,125)	(1,664,403)	(2,524,528)
Accounts payable	(3,121,750)	(24,490,411)	(27,612,161)	(1,220,659)	37,948,771	36,728,112
Accrued compensation and payroll taxes	425,337	(383,088)	42,249	199,150	346,104	545,254
Accrued compensated absences	337,672	316,088	653,760	206,562	313,854	520,416
Self-insurance	587,730	1,107,834	1,695,564	1,000	967,774	968,774
Advances and deposits from customers	(9,107,316)	12,702,465	3,595,149	32,307,319	2,204,642	34,511,961
Deferred revenue – rate stabilization fund	-	-	-	-	46,500,000	46,500,000
Deferred revenue – water availability	7,414,915	-	7,414,915	(36,043)	-	(36,043)
Other deferred revenues	(7,077,218)	38,080,879	31,003,661	21,972,802	1,840,843	23,813,645
Total adjustments	27,558,288	103,805,294	131,363,582	72,265,291	161,176,664	233,441,955
NET CASH FROM OPERATING ACTIVITIES	$ 46,399,322	$ 109,199,606	$ 155,598,928	$ 61,084,643	$ 163,667,862	$ 224,752,505

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

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 power. 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. In addition to irrigation services, the District supplies untreated water to cities and towns covering approximately 815 square miles.

The District entered the power business in 1936 to utilize the hydroelectric generation potential of the All-American Canal. Since that time the District has added geothermal, natural gas, coal and solar to its energy generation portfolio. The District's energy system serves over 148,000 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 water service boundaries.

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 Energy 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 the covenants of the District's outstanding indebtedness.

The District maintains separate accounting records for the Water and Energy 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 Energy department's basis of accounting conform to the accounting principles generally accepted in the United States of America.

Accounting pronouncements –The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

Note 1 – Summary of Significant Accounting Policies (continued)

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

Invested in capital assets, net of related debt – 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 improvement of those assets. The District's utility plant assets include plant, equipment, land and water rights (see Note 3).

Restricted – Restricted consists of assets that have restrictions placed upon their use either internally by the District's board of directors, or 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 – Unrestricted consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Utility plant – District utility plant includes plant and equipment, 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, and certain administrative and general expenses. 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 among several other governmental electrical utility operators. The operating agreements under which the facilities were constructed require 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 takes delivery of its proportionate share of the energy generated. Such expenses 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 on a straight-line basis over their estimated useful lives.

The estimated average useful lives of utility plant assets are as follows:

Structure and improvements	20 – 50 years
Generation	33 years
Transmission and distribution	33 years
Canals and drainage	30 years
General plant and equipment	5 – 10 years

Note 1 – Summary of Significant Accounting Policies (continued)

Protection of water rights – The District capitalizes costs associated with the protection of water rights. Such costs include legal and consulting fees paid by the District in an effort to sustain the District's priority use of Colorado River water. These costs are amortized on a straight-line basis over a 35-year period. Amortization charges for protection of water rights were $873,003 for the years ended December 31, 2011 and 2010.

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

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 based on the acreage owned. The water availability fee is billed in advance in December of each year, and is amortized monthly throughout the year.

The Energy Department sells energy to residential, commercial, and industrial customers. Excess energy and natural gas, if any, are sold on the wholesale market. Energy revenues are recognized as earned based on monthly metered usage. The District records unbilled revenue from the date meters were last read through year end.

Energy cost adjustment (ECA) – The District's Rate Schedule ECA provides for an adjustment to the kilowatt-hour (KWh) portion of customer bills to reflect fluctuations in a portion of the variable cost of purchased power and fuel used for generation of electric energy, offset by any revenue earned from wholesale deliveries of energy to other entities. Since April 2008, the ECA had been fixed at $.0501 per KWh. On June 21, 2011 the Board approved a new rate of $.0419 effective July 1, through December 31, 2011; thereafter the Energy Cost Adjustment Factor may float in accordance with a formula approved by the Board in 2002, and reaffirmed on June 21, 2011. The reduction in the ECA rate, combined with prior ECA billings in excess of budgeted variable power supply costs from January 1, 2011 through June 30, 2011, resulted in the collection of ECA revenue during 2011 of $38 million in excess of the covered variable power supply costs. This revenue has been deferred and is included in other deferred revenue under current liabilities in the accompanying statements of net assets.

As part of the 2012 Budget process the ECA formula was revisited, and at the direction of the board was reduced from $.0419 to $.0324 per kWh effective January 1, 2012 to take into account the ECA revenue deferred from 2011, in effect offsetting a portion of fuel and power supply costs for 2012. Quarterly updates of the Energy Cost Adjustment Factor will be presented to the Board and may be revised upward or downward to cover associated variable fuel and power supply expenditures.

Note 1 – Summary of Significant Accounting Policies (continued)

Operating and non-operating revenue and expense – The District's primary purpose is to provide water for agricultural and municipal use and to provide 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 water and energy service revenues. Operating expenses include the cost of sales and services, administrative expenses and depreciation, and amortization. Non-operating revenue and expense typically includes interest income on investments, interest expense, and other miscellaneous items.

Restricted assets – Restricted assets represent allocations of cash and investment resources pursuant to board authorized restrictions, as well as covenants on 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 Bond trustees for debt service in accordance with their associated indentures.

Construction fund – Represents funds set aside for the District's capital improvement program, including unspent Commercial Paper, Revenue Bond and COP proceeds, and certain equipment and property reserves.

Other restricted funds – Represents funds set aside for both the Water and Energy departments. Water Department restricted funds include among other things Local Entity funds, Metropolitan Water District Supervisory Control and Data Acquisition (MWD SCADA) funds, San Diego County Water Authority (SDCWA) advances for the All-American Canal Project, the Natural Community Conservation Plan (NCCP), and the Habitat Conservation Plan (HCP), and for the system conservation requirements contained in the Quantification Settlement Agreement. Energy Department restricted funds include amounts received through the Public Benefit Charge (PBC), customer deposits and advances, Energy Costs Adjustment and Rate Stabilization Fund.

Cash and cash equivalents – The District invests its idle cash on a daily basis. Investments consist primarily of federal agency securities, bank certificates of deposit, medium-term corporate notes, and obligations of the U.S. government.

Investments are stated at fair value. Fair value is determined based on market closing prices or bid/ask prices for regularly traded securities. The fair value of guaranteed investment contracts and other investments is estimated based on similarly traded securities. The fair value of government-sponsored investment pools and other similar investments is stated at share value or appropriate allocation of the fair value of the pool, if separately reported. The calculation of realized gains and losses is independent of the calculation of the net increase or decrease in the fair value of investments. A portion of the realized gains or losses on investments that have been held more than one year and sold in the current year were recognized as increases or decreases in fair value of investments in prior years. Investment earnings, including the change in fair value, are allocated to the District's operating departments on a monthly basis according to their relative investment balances.

Note 1 – Summary of Significant Accounting Policies (continued)

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 in the presentation of the District's financial statements.

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.

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.

Capital contributions – Capital contributions for 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 fair value at the time of receipt.

Compensated absences – 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 of 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.

Regulatory Accounting – The District has established regulatory accounts to reduce significant year-to year variations in rates. Amounts deposited into the accounts are excluded from the Statement of Revenues, Expenses and Changes in Net Assets in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions and debt service covenants.

Rate Stabilization fund: As of December 31, 2011, the rate stabilization fund balance is at the maximum board approved limit of $100 million. The last deferral of revenue to this fund totaled $46.5 million in 2010. There were no deferrals to the rate stabilization fund during 2011.

ECA regulatory liability: Since April 2008, the ECA had been fixed at $.0501 per KWh. On June 21, 2011 the Board approved a new rate of $.0419 effective July 1, through December 31, 2011; thereafter the Energy Cost Adjustment Factor may float in accordance with a formula approved by the Board in 2002. The reduction in the ECA rate, combined with prior ECA billings in excess of budgeted variable power supply costs from January 1, 2011 to June 30, 2011, resulted in the collection of ECA revenue during 2011 of $38 million in excess of the covered variable power supply costs. This revenue has been deferred and is included in other deferred revenue under current liabilities in the accompanying Statements of Net Assets. These funds are expected to be utilized in 2012 to offset covered fuel and power supply costs.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and disclose material contingent liabilities existing at the date of issuance. Actual results may differ from these estimates.

Note 2 – Cash and Investments

Cash and investments as of December 31, 2011 and 2010 are classified in the accompanying financial statements as follows:

	2011	2010
Cash and cash equivalents – unrestricted	$ 95,769,853	$ 75,978,933
Cash and cash equivalents – restricted	99,315,698	41,366,658
Investments – unrestricted	134,610,661	117,719,879
Investments – restricted	169,387,114	108,387,697
Rate stabilization fund	100,000,000	100,000,000
Total cash and investments	$ 599,083,326	$ 443,453,167

Cash and investments as of December 31, 2011 and 2010 consist of the following:

	2011	2010
Cash on hand	$ 12,585	$ 12,585
Deposits with financial institutions ($8,515,461 and $8,555,226 at fiscal agents, respectively)	59,060,154	38,905,573
Investments ($43,126,353 and $36,446,480 at fiscal agents, respectively)	540,010,587	404,535,009
Total cash and investments	$ 599,083,326	$ 443,453,167

Note 2 – Cash and Investments (continued)

Investments authorized by the California Government Code and the Imperial Irrigation District's investment policy – The following table identifies the investment types that are authorized by the Imperial Irrigation District's Investment Policy, which is in compliance with the California Government Code.

Authorized Investment Type	Maximum Maturity*	Maximum Portfolio Percentage	Maximum Investment Per Issuer
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

* Debt reserves are exempt from the maximum maturity limits.

Investments by fund consisted of the following:

	Water		Energy	
Investments	2011	2010	2011	2010
Unrestricted	$ 101,795,473	$ 73,506,079	$ 32,815,188	$ 44,213,800
Restricted – other	55,005,291	52,506,864	114,381,823	55,880,833
Restricted – rate stabilization fund	-	-	100,000,000	100,000,000
Total	$ 156,800,764	$ 126,012,943	$ 247,197,011	$ 200,094,633
Investments – current	$ 11,664,861	$ 26,606,684	$ 18,389,698	$ 42,248,476
Investments – long-term	$ 145,135,903	$ 99,406,259	$ 228,807,313	$ 157,846,157

Note 2 – Cash and Investments (continued)

Disclosures relating to interest rate risk – Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. In general, 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 following a hold-to-maturity investment approach, purchasing a combination of shorter 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, 2011, the District had the following investments and maturities:

		Investment Maturities (in Years)		
Investment Type	Market Value	Less than 1 Year	1 – 5 Years	More than 5 Years
U.S. Treasury obligations	$ 34,288,364	$ 4,004,538	$ 30,283,826	$ -
U.S. agency securities	314,992,025	15,904,614	299,087,411	-
Certificates of deposit	656,693	307,393	349,300	-
Corporate medium-term notes	24,581,014	5,354,804	19,226,210	-
Municipal bonds	29,479,679	4,483,210	24,996,469	-
Total	$ 403,997,775	$ 30,054,559	$ 373,943,216	$ -

As of December 31, 2010, the District had the following investments and maturities:

		Investment Maturities (in Years)		
Investment Type	Market Value	Less than 1 Year	1 – 5 Years	More than 5 Years
U.S. Treasury obligations	$ 31,386,534	$ 23,356,534	$ 8,030,000	$ -
U.S. agency securities	227,474,437	37,936,341	188,075,116	1,462,980 *
Certificates of deposit	637,571	537,181	100,390	-
Corporate medium-term notes	41,677,642	6,326,526	35,351,116	-
Municipal bonds	24,931,392	698,578	22,500,493	1,732,321
Total	$ 326,107,576	$ 68,855,160	$ 254,057,115	$ 3,195,301

***** Amounts represent bond reserves.

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 under the California Government Code, the District's investment policy, or related debt covenants and the actual rating as of year-end for each investment type.

Note 2 – Cash and Investments (continued)

Investments and their associated credit ratings at December 31, 2011 are as follows:

Investment Type	Market Value	Min Rating	Not Rated	Credit Rating as of Year End Aaa/AAA	Aa/AA	A	B	Not Rated	
U.S. Treasury obligations	$ 34,288,364	N/A	$ -	$ 34,288,364	$ -	$ -	$ -	$ -	
U.S. agency securities	314,992,025	N/A	-	314,992,025	-	-	-	-	
Certificates of deposit	656,693	N/A	656,693	-	-	-	-	-	
Corporate medium-term notes	24,581,014	A	-	6,344,624	8,603,901	9,421,489	-	211,000	*
Guaranteed Investment Contract (GIC)	-	N/A	-	-	-	-	-	-	
Municipal bonds	29,479,679	A	-	3,810,297	25,669,382	-	-	-	
	$ 403,997,775		$ 656,693	$ 359,435,310	$ 34,273,283	$ 9,421,489	$ -	$ 211,000	

*Amount represents an investment in Lehman Brothers Holdings with a par value of $1,000,000 and market value of $211,000 which is currently in default.

Investments and their associated credit ratings at December 31, 2010 are as follows:

Investment Type	Market Value	Min Rating	Not Rated	Credit Rating as of Year End Aaa/AAA	Aa/AA	A	B	Not Rated	
U.S. Treasury obligations	$ 31,386,534	N/A	$ -	$ 31,386,534	$ -	$ -	$ -	$ -	
U.S. agency securities	227,474,437	N/A	-	227,474,437	-	-	-	-	
Certificates of deposit	637,571	N/A	637,571	-	-	-	-	-	
Corporate medium-term notes	41,677,642	A	-	6,291,580	17,042,806	18,127,006	-	216,250	*
Guaranteed Investment Contract (GIC)	1,732,321	N/A	-	-	1,732,321	-	-	-	
Municipal bonds	23,199,071	A	-	5,771,036	17,428,035	-	-	-	
	$ 326,107,576		$ 637,571	$ 270,923,587	$ 36,203,162	$ 18,127,006	$ -	$ 216,250	

*Amount represents an investment in Lehman Brothers Holdings with a par value of $1,000,000 and market value of $216,250 which is currently in default.

The District invests its funds as allowed under California Government Code Sections 53601 and 53635. The value of the District's investment portfolio fluctuates in an inverse relationship with change in market interest rates. Unrealized and realized gains and losses are recognized in the Statement of Revenues, Expenses, and Changes in Net Assets as income or expense under non-operating revenue and expense.

Concentration of credit risk – The investment policy of the District contains no limitations on the amount that may 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 include the following at December 31, 2011:

Issuer	Investment Type	Reported Amount	Percentage of Portfolio
Federal Home Bank – FHLB	Federal Agency	$ 53,892,619	9.0%
Federal National Mortgage Association – FNMA	Federal Agency	165,607,029	27.6%
Federal Home Loan Mortgage Corp. – FHLMC	Federal Agency	58,825,493	9.8%
Federal Farm Credit Bank – FFCB	Federal Agency	36,666,884	6.1%
U. S. Treasury Notes	Treasury	34,288,364	5.7%

Note 2 – Cash and Investments (continued)

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the investor 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, the investor will not be able to recover the value of its investment or collateral securities that are in the possession of a third 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 and 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, 2011 and 2010, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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 based on 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, 2011:

Water	January 1, 2011	Additions	Retirements	Transfers	December 31, 2011
Utility plant, not being depreciated					
Land and land rights	$ 54,217,888	$ -	$ (2,607,669)	$ -	$ 51,610,219
Construction in process	37,816,047	9,522,703	-	(17,536,723)	29,802,027
Total utility plant, not being depreciated	92,033,935	9,522,703	(2,607,669)	(17,536,723)	81,412,246
Utility plant, being depreciated					
Structures and improvements	11,901,439	7,792	-	-	11,909,231
Canals	277,001,476	2,752,665	-	591,932	280,346,073
Drainage	99,185,360	1,273,695	-	5,007,762	105,466,817
All-American Canal	310,961,121	266,821	-	10,693,786	321,921,728
Dredges and field equipment	12,620,149	1,521,995	(2,327,981)	-	11,814,163
Automobiles and trucks	9,906,892	640,456	(111,255)	-	10,436,093
Other plant equipment	25,282,166	657,331	(56,574)	1,391,310	27,274,233
Roads, railroads, and bridges	3,933,706	-	-	-	3,933,706
Reservoirs and dams	5,666,937	-	-	-	5,666,937
Total utility plant, being depreciated	756,459,246	7,120,755	(2,495,810)	17,684,789	778,768,980
Protection of water rights	30,555,094	-	-	-	30,555,094
Less accumulated depreciation	(190,167,176)	(23,398,783)	1,781,204	(1,581)	(211,786,336)
Less accumulated amortization – water rights	(10,245,093)	(873,003)	-	-	(11,118,096)
Total utility plant, being depreciated, net	586,602,071	(17,151,031)	(714,606)	17,683,208	586,419,642
Utility plant, net	$ 678,636,006	$ (7,628,328)	$ (3,322,275)	$ 146,485	$ 667,831,888

Note 3 – Utility Plant (continued)

Energy	January 1, 2011	Additions	Retirements	Transfers	December 31, 2011
Utility plant, not being depreciated					
Land and land rights	$ 16,036,584	$ -	$ -	$ -	$ 16,036,584
Construction in process	167,691,316	119,979,254	-	(21,934,575)	265,735,995
Total utility plant, not being depreciated	183,727,900	119,979,254	-	(21,934,575)	281,772,579
Utility plant, being depreciated					
Structures and improvements	96,192,504	1,657,452	-	305,393	98,155,349
Dredges and field equipment	4,880,422	300,860	-	-	5,181,282
Automobiles and trucks	17,756,239	274,444	(200,509)	-	17,830,174
Other plant equipment	118,460,695	4,718,306	(76,086)	1,271,973	124,374,888
Steam plant equipment	126,466,600	398,825	-	1,191,435	128,056,860
Hydroelectric generating equipment	37,172,973	8,221	-	111,713	37,292,907
Gas turbines	132,145,314	-	-	-	132,145,314
Transmission plant	331,795,331	4,009,234	(150,894)	12,843,857	348,497,528
Distribution plant	794,900,253	28,192,616	(1,944,165)	6,062,135	827,210,839
Reservoirs and dams	3,733,226	-	-	-	3,733,226
Total utility plant, being depreciated	1,663,503,557	39,559,959	(2,371,654)	21,786,507	1,722,478,369
Less accumulated depreciation	(690,406,740)	(56,147,450)	2,359,339	1,583	(744,193,268)
Total utility plant, being depreciated, net	973,096,817	(16,587,491)	(12,315)	21,788,090	978,285,101
Utility plant, net	$ 1,156,824,717	$ 103,391,763	$ (12,315)	$ (146,485)	$ 1,260,057,680

Note 3 – Utility Plant (continued)

Combined Water and Energy	January 1, 2011	Additions	Retirements	Transfers	December 31, 2011
Utility plant, not being depreciated					
Land and land rights	$ 70,254,472	$ -	$ (2,607,669)	$ -	$ 67,646,803
Construction in process	205,507,363	129,501,956	-	(39,471,297)	295,538,022
Total utility plant, not being depreciated	275,761,835	129,501,956	(2,607,669)	(39,471,297)	363,184,825
Utility plant, being depreciated					
Structures and improvements	108,093,943	1,665,244	-	305,393	110,064,580
Dredges and field equipment	17,500,571	1,822,855	(2,327,981)	-	16,995,445
Automobiles and trucks	27,663,131	914,900	(311,764)	-	28,266,267
Other plant equipment	143,742,861	5,375,637	(132,660)	2,663,283	151,649,121
Steam plant equipment	126,466,600	398,825	-	1,191,435	128,056,860
Hydroelectric generating equipment	37,172,973	8,221	-	111,713	37,292,907
Gas turbines	132,145,314	-	-	-	132,145,314
Transmission plant	331,795,331	4,009,234	(150,894)	12,843,857	348,497,528
Distribution plant	794,900,253	28,192,616	(1,944,165)	6,062,135	827,210,839
Roads, railroads, and bridges	3,933,706	-	-	-	3,933,706
Reservoirs and dams	9,400,163	-	-	-	9,400,163
Canals	277,001,476	2,752,665	-	591,932	280,346,073
Drainage	99,185,360	1,273,695	-	5,007,762	105,466,817
All-American Canal	310,961,121	266,821	-	10,693,786	321,921,728
Total utility plant, being depreciated	2,419,962,803	46,680,713	(4,867,464)	39,471,297	2,501,247,349
Protection of water rights	30,555,094	-	-	-	30,555,094
Less accumulated depreciation	(880,573,916)	(79,546,233)	4,140,543	2	(955,979,604)
Less accumulated amortization – water rights	(10,245,093)	(873,003)	-	-	(11,118,096)
Total utility plant, being depreciated, net	1,559,698,888	(33,738,523)	(726,921)	39,471,299	1,564,704,743
Utility plant, net	$ 1,835,460,723	$ 95,763,433	$ (3,334,590)	$ 2	$ 1,927,889,568

Note 3 – Utility Plant (continued)

Utility plant is comprised of the following at December 31, 2010:

Water	January 1, 2010	Additions	Retirements	Transfers	December 31, 2010
Utility plant, not being depreciated					
Land and land rights	$ 54,212,415	$ 5,473	$ -	$ -	$ 54,217,888
Construction in process	91,765,342	18,885,910	-	(72,835,205)	37,816,047
Total utility plant, not being depreciated	145,977,757	18,891,383	-	(72,835,205)	92,033,935
Utility plant, being depreciated					
Structures and improvements	11,623,149	250,845	-	27,445	11,901,439
Canals	274,700,311	2,154,452	-	146,713	277,001,476
Drainage	91,695,892	2,194,411	-	5,295,056	99,185,359
All-American Canal	245,925,995	-	-	65,035,126	310,961,121
Dredges and field equipment	11,609,396	414,650	(462,866)	1,058,969	12,620,149
Automobiles and trucks	9,785,129	623,798	(516,375)	14,340	9,906,892
Other plant equipment	24,613,485	387,232	(39,562)	321,012	25,282,167
Roads, railroads, and bridges	3,933,706	-	-	-	3,933,706
Reservoirs and dams	5,666,937	-	-	-	5,666,937
Total utility plant, being depreciated	679,554,000	6,025,388	(1,018,803)	71,898,661	756,459,246
Protection of water rights	30,555,094	-	-	-	30,555,094
Less accumulated depreciation	(167,935,808)	(23,111,328)	892,865	(12,905)	(190,167,176)
Less accumulated amortization – water rights	(9,372,090)	(873,003)	-	-	(10,245,093)
Total utility plant, being depreciated, net	532,801,196	(17,958,943)	(125,938)	71,885,756	586,602,071
Utility plant, net	$ 678,778,953	$ 932,440	$ (125,938)	$ (949,449)	$ 678,636,006

Note 3 – Utility Plant (continued)

Energy	January 1, 2010	Additions	Retirements	Transfers	December 31, 2010
Utility plant, not being depreciated					
Land and land rights	$ 14,170,174	$ 1,353,153	$ -	$ 513,257	$ 16,036,584
Construction in process	37,670,061	146,081,456	-	(16,060,201)	167,691,316
Total utility plant, not being depreciated	51,840,235	147,434,609	-	(15,546,944)	183,727,900
Utility plant, being depreciated					
Structures and improvements	95,405,773	451,216	-	335,517	96,192,506
Dredges and field equipment	4,736,383	125,556	-	18,482	4,880,421
Automobiles and trucks	18,207,111	504,543	(941,075)	(14,340)	17,756,239
Other plant equipment	109,216,265	2,229,728	(182,469)	7,197,174	118,460,698
Steam plant equipment	126,031,526	393,180	-	41,895	126,466,601
Hydroelectric generating equipment	36,086,948	718,846	-	367,180	37,172,974
Gas turbines	132,101,288	44,499	-	(473)	132,145,314
Transmission plant	326,396,578	5,377,601	(559,587)	580,739	331,795,331
Distribution plant	762,093,154	28,882,038	(4,032,260)	7,957,315	794,900,247
Reservoirs and dams	3,733,226	-	-	-	3,733,226
Total utility plant, being depreciated	1,614,008,252	38,727,207	(5,715,391)	16,483,489	1,663,503,557
Less accumulated depreciation	(642,299,270)	(53,784,043)	5,663,668	12,905	(690,406,740)
Total utility plant, being depreciated, net	971,708,982	(15,056,836)	(51,723)	16,496,394	973,096,817
Utility plant, net	$ 1,023,549,217	$ 132,377,773	$ (51,723)	$ 949,450	$ 1,156,824,717

Note 3 – Utility Plant (continued)

Combined Water and Energy	January 1, 2010	Additions	Retirements	Transfers	December 31, 2010
Utility plant, not being depreciated					
Land and land rights	$ 68,382,589	$ 1,358,626	$ -	$ 513,257	$ 70,254,472
Construction in process	129,435,403	164,967,366	-	(88,895,406)	205,507,363
Total utility plant, not being depreciated	197,817,992	166,325,992	-	(88,382,149)	275,761,835
Utility plant, being depreciated					
Structures and improvements	107,028,922	702,061	-	362,962	108,093,945
Dredges and field equipment	16,345,779	540,206	(462,866)	1,077,451	17,500,570
Automobiles and trucks	27,992,240	1,128,341	(1,457,450)	-	27,663,131
Other plant equipment	133,829,750	2,616,960	(222,031)	7,518,186	143,742,865
Steam plant equipment	126,031,526	393,180	-	41,895	126,466,601
Hydroelectric generating equipment	36,086,948	718,846	-	367,180	37,172,974
Gas turbines	132,101,288	44,499	-	(473)	132,145,314
Transmission plant	326,396,578	5,377,601	(559,587)	580,739	331,795,331
Distribution plant	762,093,154	28,882,038	(4,032,260)	7,957,315	794,900,247
Roads, railroads, and bridges	3,933,706	-	-	-	3,933,706
Reservoirs and dams	9,400,163	-	-	-	9,400,163
Canals	274,700,311	2,154,452	-	146,713	277,001,476
Drainage	91,695,892	2,194,411	-	5,295,056	99,185,359
All-American Canal	245,925,995	-	-	65,035,126	310,961,121
Total utility plant, being depreciated	2,293,562,252	44,752,595	(6,734,194)	88,382,150	2,419,962,803
Protection of water rights	30,555,094	-	-	-	30,555,094
Less accumulated depreciation	(810,235,078)	(76,895,371)	6,556,533	-	(880,573,916)
Less accumulated amortization – water rights	(9,372,090)	(873,003)	-	-	(10,245,093)
Total utility plant, being depreciated, net	1,504,510,178	(33,015,779)	(177,661)	88,382,150	1,559,698,888
Utility plant, net	$ 1,702,328,170	$ 133,310,213	$ (177,661)	$ 1	$ 1,835,460,723

Note 4 – Commercial Paper Programs

Water and electrical system – $200 million – On May 15, 2007, the District obtained a $200 million Non-Taxable and Taxable Commercial Paper (CP) program to fund water and energy projects.

The District's Letter of Credit with Citibank NA expired on August 9, 2010, at which time the District procured a substitution letter from Union Bank for $109 million. As of December 31, 2010 there was $55 million outstanding, of which $40 million was for the Energy Department's El Centro Unit 3 repowering project and $15 million was reserved for water projects. During the course of 2011 the District repaid $6.5 million of the Water department outstanding Commercial Paper leaving a balance of $8.4 million as of December 31, 2011. In addition the District utilized proceeds under the Commercial Paper program to fund the Energy department El Centro Unit 3 repowering project. The Commercial Paper borrowings were subsequently refunded during 2011 using proceeds received from the issuance of Revenue Bonds Series 2011 A, B and C. The Energy department had no outstanding Commercial Paper as of December 31, 2011.

Note 4 – Commercial Paper Programs (continued)

A summary of the District's Water and Energy System Commercial Paper outstanding at December 31, 2011 is as follows:

Maturity	Interest Rate	Outstanding Warrants Water	Outstanding Warrants Energy
February 2012	0.20%	$ 8,445,000	$ -
		$ 8,445,000	$ -

Note 5 – Long-Term Debt

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

Water	Maturity Dates	Range of Interest Rates	January 1, 2011	Additions	Reductions	December 31, 2011	Current Portion
Certificates of participation – 2002, net of unamortized original issue premium of $395,420, net of unamortized deferral on refunding of $368,670*	2029	4.00%-5.50%	$ 14,441,751	$ -	$ (14,441,751)	$ -	$ -
Certificates of participation – 2004	2034	2.45%-6.10%	35,820,000	-	-	35,820,000	-
Refunding revenue bonds – 2010 net of unamortized original issue premium of $2,223,395, net of unamortized deferral on $1,300,236	2029	2.00%-5.00%	26,794,878	-	(2,561,719)	24,233,159	1,500,000
Refunding revenue bonds – 2011 net of unamortized original issue premium of $501,967 net of unamortized deferral on $363,440	2029	2.00%-5.00%	-	13,447,475	(383,948)	13,063,527	190,000
Total certificates of participation/ revenue bonds			77,056,629	13,447,475	(17,387,418)	73,116,686	1,690,000
Pension obligation revenue bond 2001, net of unamortized original issue discount of $47,014	2031	5.70%-7.00%	31,642,837	-	(722,601)	30,920,236	773,575
Water loan payable	2015	4.013%	462,764	-	(128,155)	334,609	133,313
Total obligation bonds payable/ state loans			32,105,601	-	(850,756)	31,254,845	906,888
Obligation under capital leases			5,168,114	107,347	(2,949,717)	2,325,744	1,307,459
Accrued vacation and sick leave			6,005,356	4,725,522	(4,387,850)	6,343,028	1,047,179
Other post employment benefits			16,310,798	4,735,182	-	21,045,980	-
Total long-term liabilities			$ 136,646,498	$ 23,015,526	$ (25,575,741)	$ 134,086,283	$ 4,951,526

* During 2011 the 2002 Certificates of Participation were fully defeased.

Note 5 – Long-Term Debt (continued)

Energy	Maturity Dates	Range of Interest Rates	January 1, 2011	Additions	Reductions	December 31, 2011	Current Portion
Certificates of participation – 2003, net of unamortized original issue premium of $629,324**	2028	1.00%-5.25%	$ 66,028,252	$ -	$ (28,333,928)	$ 37,694,324	$ 2,505,000
Refunding revenue bonds – 2008, net of unamortized original issue discount of $1,660,709 and deferral on refunding of $3,405,230	2038	3.00%-5.25%	233,799,088	-	(3,505,027)	230,294,061	3,875,000
Refunding revenue bonds – 2011A net of unamortized original issue premium of $416,813	2041	3.00%-5.25%	-	78,493,423	(11,610)	78,481,813	1,135,000
Refunding revenue bonds – 2011B net of unamortized original issue premium of $2,572,393	2041	3.00%-5.00%	-	78,100,385	(42,992)	78,057,393	1,180,000
Refunding revenue bonds – 2011C net of unamortized original issue premium of $2,251,004	2041	3.00%-5.00%	-	78,021,155	(25,151)	77,996,004	1,170,000
Refunding revenue bonds – 2011D net of unamortized original issue premium of $4,436,209 and deferral on refunding of $2,492,423	2023	5.00%	-	24,808,786	-	24,808,786	-
Total certificates of participation/ revenue bonds			299,827,340	259,423,749	(31,918,708)	527,332,381	9,865,000
Pension obligation revenue bond – 2001, net of unamortized original issue discount of $49,922	2031	5.70%-7.00%	33,600,126	-	(767,298)	32,832,828	821,425
Obligation under capital leases			5,918,237	431,060	(2,559,123)	3,790,174	2,374,757
Accrued vacation and sick leave			6,804,911	6,803,323	(6,487,235)	7,120,999	951,128
Other post employment benefits			29,634,207	8,257,940		37,892,147	
Total long-term liabilities			$ 375,784,821	$ 274,916,072	$ (41,732,364)	$ 608,968,529	$ 14,012,310

** During 2011 the 2003 Certificates of Participation were partially defeased.

Note 5 – Long-Term Debt (continued)

Combined Water and Energy	Maturity Dates	Range of Interest Rates	January 1, 2011	Additions	Reductions	December 31, 2011	Current Portion
Certificates of participation – 2002, net of unamortized original issue premium of $395,420, net of unamortized deferral on refunding of $368,670*	2029	4.00%-5.50%	$ 14,441,751	$ -	$ (14,441,751)	$ -	$ -
Certificates of participation – 2003, net of unamortized original issue premium of $629,324**	2028	1.00%-5.25%	66,028,252	-	(28,333,928)	37,694,324	2,505,000
Certificates of participation - 2004	2034	2.45%-6.10%	35,820,000	-	-	35,820,000	-
Refunding revenue bonds – 2008, net of unamortized original issue discount of $1,660,709 and deferral on refunding of $3,405,230	2038	3.00%-5.25%	233,799,088	-	(3,505,027)	230,294,061	3,875,000
Refunding revenue bonds – 2010, net of unamortized original issue premium of $2,223,395, net of unamortized deferral on refunding of $1,300,236	2029	2.00%-5.00%	26,794,878	-	(2,561,719)	24,233,159	1,500,000
Refunding revenue bonds – 2011 net of unamortized original issue premium of $501,967 net of unamortized deferral on $363,440	2029	2.00%-5.00%	-	13,447,475	(383,948)	13,063,527	190,000
Refunding revenue bonds – 2011A net of unamortized original issue premium of $416,813	2041	3.00%-5.25%	-	78,493,423	(11,610)	78,481,813	1,135,000
Refunding revenue bonds – 2011B net of unamortized original issue premium of $2,572,393	2041	3.00%-5.00%	-	78,100,385	(42,992)	78,057,393	1,180,000
Refunding revenue bonds – 2011C net of unamortized original issue premium of of $2,251,004	2041	3.00%-5.00%	-	78,021,155	(25,151)	77,996,004	1,170,000
Refunding revenue bonds – 2011D net of unamortized original issue premium of $4,436,209 and deferral on refunding of $2,492,423	2023	5.00%	-	24,808,786	-	24,808,786	-
Total certificates of participation/ revenue bonds			376,883,969	272,871,224	(49,306,126)	600,449,067	11,555,000
Pension obligation revenue bond – 2001, net of unamortized original issue discount of $96,936	2031	5.70%-7.00%	65,242,963	-	(1,489,899)	63,753,064	1,595,000
Water loan payable	2015	4.013%	462,764	-	(128,155)	334,609	133,313
Total obligation bonds payable/ state loans			65,705,727	-	(1,618,054)	64,087,673	1,728,313
Obligation under capital leases			11,086,351	538,407	(5,508,840)	6,115,918	3,682,216
Accrued vacation and sick leave			12,810,267	11,528,845	(10,875,085)	13,464,027	1,998,307
Other post employment benefits			45,945,005	12,993,122	-	58,938,127	-
Totals			$ 512,431,319	$ 297,931,598	$ (67,308,105)	$ 743,054,812	$ 18,963,836

* During 2011 the 2002 Certificates of Participation were fully defeased.
** During 2011 the 2003 Certificates of Participation were partially defeased.

Note 5 – Long-Term Debt (continued)

Water	Maturity Dates	Range of Interest Rates	January 1, 2010	Additions	Reductions	December 31, 2010	Current Portion
Certificates of participation - 2000, net of unamortized original issue premium of $78,601*	2021	3.85%-5.125%	$ 20,053,601	$ -	$ (20,053,601)	$ -	$ -
Certificates of participation – 2002, net of unamortized original issue premium of $395,421, net of unamortized deferral on refunding of $368,670**	2029	4.00%-5.50%	23,623,304	-	(9,181,554)	14,441,750	170,000
Certificates of participation – 2004***	2034	2.45%-6.10%	62,395,000	-	(26,575,000)	35,820,000	-
Refunding revenue bonds – 2010, net of unamortized original issue premium of $2,354,183, net of unamortized deferral on $549,305	2029	2.00%-5.00%	-	26,819,946	(25,068)	26,794,878	1,680,000
Total certificates of participation/ revenue bonds			106,071,905	26,819,946	(55,835,223)	77,056,628	1,850,000
Pension obligation revenue bond 2001, net of unamortized original issue discount of $49,489	2031	5.70%-7.00%	32,321,787	-	(678,950)	31,642,837	725,075
Water loan payable	2015	4.013%	585,928	-	(123,164)	462,764	128,132
Total obligation bonds payable/ state loans			32,907,715	-	(802,114)	32,105,601	853,207
Obligation under capital leases			6,275,627	896,741	(2,004,254)	5,168,114	1,885,678
Accrued vacation and sick leave			5,798,794	4,610,980	(4,404,418)	6,005,356	1,004,808
Other post employment benefits			12,211,525	4,099,274	-	16,310,799	-
Total long-term liabilities			$ 163,265,566	$ 36,426,941	$ (63,046,009)	$ 136,646,498	$ 5,593,693

* During 2010 the 2000 Certificate of Participation was fully defeased.
** During 2010 the 2002 Certificate of Participation was partially defeased.
*** During 2010 the 2004 Certificate of Participation was partially defeased.

Energy	Maturity Dates	Range of Interest Rates	January 1, 2010	Additions	Reductions	December 31, 2010	Current Portion
Certificates of participation – 2003, net of unamortized original issue premium of $1,113,252	2028	1.00%-5.25%	$ 68,605,677	$ -	$ (2,577,425)	$ 66,028,252	$ 3,025,000
Refunding revenue bonds – 2008, net of unamortized original issue discount of $1,722,986 and deferral on refunding of $3,532,925	2038	3.00%-5.25%	237,159,116	-	(3,360,029)	233,799,087	3,695,000
Total certificates of participation/ revenue bonds			305,764,793	-	(5,937,454)	299,827,339	6,720,000
Pension obligation revenue bond – 2001, net of unamortized original issue discount of $52,549	2031	5.70%-7.00%	34,321,073	-	(720,947)	33,600,126	769,925
Obligation under capital leases			7,639,885	926,143	(2,647,791)	5,918,237	2,432,387
Accrued vacation and sick leave			6,491,057	6,819,323	(6,505,469)	6,804,911	553,791
Other post employment benefits			22,433,197	7,201,011	-	29,634,208	-
Total long-term liabilities			$ 376,650,005	$ 14,946,477	$ (15,811,661)	$ 375,784,821	$ 10,476,103

Note 5 – Long-Term Debt (continued)

Combined Water and Energy	Maturity Dates	Range of Interest Rates	January 1, 2010	Additions	Reductions	December 31, 2010	Current Portion
Certificates of participation – 2000, net of unamortized original issue premium of $78,601*	2021	3.85%-5.125%	$ 20,053,601	$ -	$ (20,053,601)	$ -	$ -
Certificates of participation – 2002, net of unamortized original issue premium of $395,421, net of unamortized deferral on refunding of $368,670**	2029	4.00%-5.50%	23,623,304	-	(9,181,554)	14,441,750	170,000
Certificates of participation – 2003, net of unamortized original issue premium of $1,113,252	2028	1.00%-5.25%	68,605,677	-	(2,577,425)	66,028,252	3,025,000
Certificates of participation - 2004***	2034	2.45%-6.10%	62,395,000	-	(26,575,000)	35,820,000	-
Refunding revenue bonds – 2008, net of unamortized original issue discount of $1,722,986 and deferral on refunding of $3,532,925	2038	3.00%-5.25%	237,159,116	-	(3,360,029)	233,799,087	3,695,000
Refunding revenue bonds – 2010, net of unamortized original issue premium of $2,354,183, net of unamortized deferral on refunding of $549,305	2029	2.00%-5.00%	-	26,819,946	(25,068)	26,794,878	1,680,000
Total certificates of participation/ revenue bonds			411,836,698	26,819,946	(61,772,677)	376,883,967	8,570,000
Pension obligation revenue bond – 2001, net of unamortized original issue discount of $102,038	2031	5.70%-7.00%	66,642,860		(1,399,897)	65,242,963	1,495,000
Water loan payable	2015	4.013%	585,928	-	(123,164)	462,764	128,132
Total obligation bonds payable/ state loans			67,228,788	-	(1,523,061)	65,705,727	1,623,132
Obligation under capital leases			13,915,512	1,822,884	(4,652,045)	11,086,351	4,318,065
Accrued vacation and sick leave			12,289,851	11,430,303	(10,909,887)	12,810,267	1,558,599
Other post employment benefits			34,644,722	11,300,285	-	45,945,007	-
Totals			$ 539,915,571	$ 51,373,418	$ (78,857,670)	$ 512,431,319	$ 16,069,796

* During 2010 the 2000 Certificate of Participation was fully defeased.
** During 2010 the 2002 Certificate of Participation was partially defeased.
*** During 2010 the 2004 Certificate of Participation was partially defeased.

Note 6 – Certificates of Participation/Revenue Bonds

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.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

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 the 2000 Certificates of Participation was fully defeased in 2010 through the issuance of the Water System Refunding Revenue Bonds, 2010 Series.

The 2010 Bonds effectively defeased the 2000 COPs obligation on October 1, 2010. The proceeds of the new 2010 Series Bonds were placed in an irrevocable trust to prepay all outstanding 2000 Bonds as of November 1, 2010. As a result, the 2000 COP is considered defeased, and as of December 31, 2010 $18,720,000 of the corresponding liabilities have been removed from the accompanying Statements of Net Assets.

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, 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 statements of net assets.

On October 1, 2010, the 2002 COP was partially defeased from the proceeds of the Water System Refunding Revenue Bonds, 2010 Series. The 2010 Bonds partial defeasance of the 2002 COPs obligation was dated October 1, 2010. The proceeds of the new 2010 Series Bonds were placed in an irrevocable trust to provide for all future debt service payments. As a result, $9,065,000 of the 2002 COPs outstanding principal is considered defeased, and as of December 31, 2010 the corresponding liabilities have been removed from the accompanying statements of net assets.

On July 26, 2011, the remaining 2002 COPs were fully defeased from proceeds of the Water System Refunding Revenue Bonds, 2011 Series. The 2011 Bonds defeasance of the 2002 COPs obligation was dated July 1, 2011. The proceeds of the new 2011 Series Bonds were placed in an irrevocable trust to prepay all outstanding 2002 Bonds as of July 1st, 2011. As a result, the remaining $14,245,000 of the 2002 COPs outstanding principal is considered defeased, and as of December 31, 2011 the corresponding liabilities have been removed from the accompanying Statements of Net Assets.

The 2002 COPs originally consisted 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%, and were subject to mandatory sinking fund redemption beginning in 2017.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

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 $14,441,751 at December 31, 2010, including unamortized original issue premium of $395,420 and deferred amount on refunding of $368,670. The 2002 COPs Installment Purchase Contract is payable solely from, and secured by, a pledge of and first lien on the net revenues of the District's water system. Covenants under the Series 2002 obligation require the District to maintain certain Coverage Ratios with which the District has complied for the year ended December 31, 2011.

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 originally consisted 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, with mandatory sinking fund redemption beginning in 2015, 2020 and 2028 respectively.

The 2004 COPs were issued with costs of issuance of $1,575,764 which are amortized over the life of the 2004 COPs. On September 30, 2009, the District legally defeased $20,670,000 of the 2004 COPs, comprised of serial certificates maturing from July 1, 2010 through 2014 and the term certificate maturing on July 1, 2019. These COPs are considered defeased and the liability has been removed from the accompanying Statements of Net Assets. The reduction in debt service with the defeasance is approximately $2.7 million annually through 2019. In March 2010 proceeds from the sale of Western Farms Land/Trust Land were used by the District to legally defease $26,575,000 of outstanding principal on the 2004 COPs, comprised of term certificates maturing from July 1, 2020 through 2027. The COPs are considered defeased and the liability for those COPs has been removed from the accompanying Statements of Net Assets. The outstanding balance of 2004 COPs was $35,820,000 at December 31, 2011.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

The terms of the 2004 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for 2011 and 2010.

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

Due Date	Principal Amount	Interest	Total Debt Service
July 1, 2012	$ -	$ 2,185,020	$ 2,185,020
July 1, 2013	-	2,185,020	2,185,020
July 1, 2014	-	2,185,020	2,185,020
July 1, 2015	-	2,185,020	2,185,020
July 1, 2016	-	2,185,020	2,185,020
July 1, 2017 – 2021	-	10,925,100	10,925,100
July 1, 2022 – 2026	-	10,925,100	10,925,100
July 1, 2027 – 2031	18,640,000	9,303,415	27,943,415
July 1, 2032 – 2034	17,180,000	2,137,440	19,317,440
Totals	$ 35,820,000	$ 44,216,155	$ 80,036,155

2010 issue – water – On October 1, 2010, the District issued $24,990,000 of Water System Refunding Revenue Bonds, 2010 Series, the proceeds of which was used to refund all the District's 2000 Certificates of Participation and a portion of the District's 2002 Certificates of Participation, fund a reserve account for the bonds and pay cost of issuance of the bonds. The net present value savings on the refunding of these COPs was $3.6 million, or 12.8% savings, with an average annual reduction in debt service of $300,000.

The 2010 Series Bonds consist of $24,990,000 serial and term certificates. The serial certificates comprise $17,290,000 of the issuance, mature in amounts ranging from $815,000 to $1,935,000 at rates ranging from 2.00% to 5.00% and mature on July 1, 2011 through July 1, 2020. The term certificates comprise $7,700,000 of the issuance, mature in the amounts of $2,905,000 and $4,795,000 at rates ranging from 3.35% to 4.15% on July 1 of years 2025 and 2029, with mandatory sinking fund redemption starting in 2023 and 2026 respectively.

The 2010 Series Bonds were issued with an original issue premium of $2,386,880 and costs of issuance of $421,144 which are amortized over the life of the 2010 Bonds. The outstanding balance of Series 2010 Bonds was $24,233,159 at December 31, 2011, including unamortized original issue premium of $2,223,395 and deferred amount on refunding of $1,300,236. The terms of the Series 2010 Bonds obligation indenture requires the District to maintain certain Coverage Ratios with which the district has complied for the years ended December 31, 2011 and 2010.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

A summary of the District's outstanding liability for the 2010 revenue bonds is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
July 1, 2012	$ 1,500,000	$ 964,388	$ 2,464,388
July 1, 2013	1,545,000	919,388	2,464,388
July 1, 2014	1,590,000	873,038	2,463,038
July 1, 2015	1,655,000	809,438	2,464,438
July 1, 2016	1,720,000	743,238	2,463,238
July 1, 2017 – 2021	7,600,000	2,615,188	10,215,188
July 1, 2022 – 2026	3,960,000	1,538,500	5,498,500
July 1, 2027 – 2030	3,740,000	376,300	4,116,300
Original issue premium	2,223,395	-	2,223,395
Deferred amount on refunding	(1,300,236)	-	(1,300,236)
Totals	$ 24,233,159	$ 8,839,478	$ 33,072,637

2011 issue – water – On July 26, 2011, the District issued $12,925,000 of Water System Refunding Revenue Bonds, 2011 Series, the proceeds of which were used to refund all of the District's 2002 Certificates of Participation, fund a reserve account for the bonds and pay cost of issuance of the bonds. The net present value savings on the refunding of these COPs was $1.2 million, or 8.7% savings, with an average annual reduction in debt service of $98,000.

The 2011 Series Bonds consist wholly of serial bonds totaling $12,925,000. The serial bonds mature in amounts ranging from $145,000 to $1,960,000 with rates ranging from 2.00% to 5.00%. The bonds mature on July 1, 2012 through July 1, 2029.

The 2011 Series Bonds were issued with an original issue premium of $513,862 and costs of issuance of $251,204 which are amortized over the life of the 2011 Bonds. The outstanding balance of Series 2011 Bonds was $13,063,527 at December 31, 2011, including unamortized original issue premium of $501,967 and deferred amount on refunding of $363,440. The terms of the Series 2011 Bonds obligation indenture requires the District to maintain certain Coverage Ratios with which the District has complied for the year ended December 31, 2011.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

A summary of the District's outstanding liability for the 2011 Revenue Bond is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
July 1, 2012	$ 190,000	$ 537,908	$ 727,908
July 1, 2013	145,000	574,250	719,250
July 1, 2014	145,000	571,350	716,350
July 1, 2015	150,000	568,450	718,450
July 1, 2016	150,000	565,450	715,450
July 1, 2017 – 2021	825,000	2,755,050	3,580,050
July 1, 2022 – 2026	6,880,000	2,197,800	9,077,800
July 1, 2027 – 2029	4,440,000	381,000	4,821,000
Original issue premium	501,967	-	501,967
Deferred amount on refunding	(363,440)	-	(363,440)
Totals	$ 13,063,527	$ 8,151,258	$ 21,214,785

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, with mandatory prepayment beginning in 2020 and 2024 respectively.

On December 21, 2011, the 2003 COP was partially defeased from the proceeds of the Electric System Refunding Revenue Bonds, 2011D Series. The 2011D Bonds partial defeasance of the 2003 COPs obligation was dated December 1, 2011. The proceeds of the new 2011D Series Bonds were placed in an irrevocable trust to provide for all future debt service payments. As a result, $24,825,000 of the 2003 COPs outstanding principal is considered defeased, and, as of December 31, 2011, the corresponding liabilities have been removed from the accompanying Statements of Net Assets.

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 $37,694,324 at December 31, 2011, including unamortized original issue premium of $629,324.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

The terms of the 2003 COPs Installment Purchase Contract require the maintenance of certain financial ratios with which the District has complied for 2011 and 2010. A summary of the District's outstanding liability for the 2003 COPs is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
November 1, 2012	$ 2,505,000	$ 1,715,020	$ 4,220,020
November 1, 2013	2,250,000	1,627,345	3,877,345
November 1, 2014	2,690,000	1,530,470	4,220,470
November 1, 2015	2,795,000	1,426,905	4,221,905
November 1, 2016	2,905,000	1,315,105	4,220,105
November 1, 2017 – 2021	-	5,980,000	5,980,000
November 1, 2022 – 2026	13,650,000	5,319,750	18,969,750
November 1, 2027 – 2028	10,270,000	776,500	11,046,500
Original issue premium	629,324	-	629,324
Totals	$ 37,694,324	$ 19,691,095	$ 57,385,419

2008 issue – energy – On August 5, 2008, the District issued $250,000,000 of Electric System Refunding Revenue Bonds, Series 2008A to finance the simple cycle natural gas fired Niland generation plant and substantial improvements to the District's transmission facilities, to refund Non-Taxable Commercial paper of $169,845,000, and to defease the remaining outstanding principal of the 1998 COPs 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 Statements of Net Assets.

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, with mandatory sinking fund redemption starting in 2026, 2029, and 2034 respectively.

The 2008A Revenue Bonds were issued with an original issue discount of $1,868,298 and costs of issuance of $2,484,116, which are amortized over the life of the 2008A Bonds. The outstanding balance of the Series 2008A Bonds was $230,294,061 at December 31, 2011, including unamortized original issue discount of $1,660,709 and deferred amount on refunding of $3,405,230. The terms of the Series 2008A Bond indenture requires the District to maintain certain Obligation Coverage Ratios with which the District has complied for the years ended December 31, 2011 and 2010.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

A summary of the District's outstanding liability for the 2008A Revenue Bonds is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
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	4,115,000	11,568,594	15,683,594
November 1, 2015	4,320,000	11,362,844	15,682,844
November 1, 2016	4,540,000	11,146,844	15,686,844
November 1, 2017 – 2021	20,000,000	52,557,081	72,557,081
November 1, 2022 – 2026	21,185,000	47,532,456	68,717,456
November 1, 2027 – 2031	44,895,000	40,540,506	85,435,506
November 1, 2032 – 2036	87,120,000	24,380,594	111,500,594
November 1, 2037 – 2038	41,390,000	3,208,250	44,598,250
Original issue discount	(1,660,709)	-	(1,660,709)
Deferred amount on refunding	(3,405,230)	-	(3,405,230)
Totals	$ 230,294,061	$ 225,981,357	$ 456,275,418

2011A Issue – Energy – On February 24, 2011, the District issued $78,065,000 of Electric System Refunding Revenue Bonds Series 2011A to refund non-taxable Commercial Paper Series A Notes of $75,000,000. The proceeds of the Commercial Paper Series A Notes were used to finance a portion of the El Centro Unit 3 Repowering Project, as well as fund a reserve account for the bonds and pay cost of issuance of the bonds. The Repowering Project is scheduled to be in commercial operation by May 31, 2012. The 2011A Revenue Bonds were the first of three issuances to refund commercial paper utilized to fund the Repowering Project.

The Series 2011A Revenue Bonds consist of $78,065,000 serial and term bonds. The serial bonds comprise $24,135,000 of the issuance, mature in amounts ranging from $1,135,000 to $2,225,000 at rates ranging from 3.00% to 5.25% and mature on November 1, 2012 through November 1, 2026. The term bonds comprise $53,930,000 of the issuance, mature in amounts of $13,225,000 and $40,705,000 at rates of 5.50% and 6.25% on November 1 of years 2031 and 2041, with mandatory sinking fund redemption starting in 2027 and 2032, respectively.

The 2011A Revenue Bonds were issued with an original issue premium of $428,423 and costs of issuance of $791,736, which are amortized over the life of the 2011A Bonds. The outstanding balance of the Series 2011A Bonds was $78,481,813 at December 31, 2011, including unamortized original issue premium of $416,813. The terms of the Series 2011A Bond indenture requires the District to maintain certain Obligation Coverage Ratios with which the District has complied for the year ended December 31, 2011.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

A summary of the District's outstanding liability for the 2011A Revenue Bonds is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
November 1, 2012	$ 1,135,000	$ 4,263,738	$ 5,398,738
November 1, 2013	1,170,000	4,229,688	5,399,688
November 1, 2014	1,230,000	4,171,188	5,401,188
November 1, 2015	1,290,000	4,109,688	5,399,688
November 1, 2016	1,355,000	4,045,188	5,400,188
November 1, 2017 – 2021	7,870,000	19,138,438	27,008,438
November 1, 2022 – 2026	10,085,000	16,920,138	27,005,138
November 1, 2027 – 2031	13,225,000	13,773,563	26,998,563
November 1, 2032 – 2036	17,645,000	9,356,875	27,001,875
November 1, 2037 – 2041	23,060,000	3,940,750	27,000,750
Original issue premium	416,813	-	416,813
Totals	$ 78,481,813	$ 83,949,254	$ 162,431,067

2011B Issue – Energy – On June 16, 2011, the District issued $75,485,000 of Electric System Refunding Revenue Bonds Series 2011B to refund non-taxable Commercial Paper Series A Notes of $75,000,000. The proceeds of the Commercial Paper Series B Notes were used to finance a portion of the El Centro Unit 3 Repowering Project, fund a reserve account for the bonds and pay cost of issuance of the bonds. The 2011B Revenue Bonds were the second of three issuances to refund commercial paper utilized for the El Centro Unit 3 Repower Project scheduled to be in commercial operation by May 31, 2012.

The Series 2011B Revenue Bonds consist of $75,485,000 serial and term bonds. The serial bonds comprise $26,930,000 of the issuance, mature in amounts ranging from $1,180,000 to $2,360,000 at rates ranging from 3.00% to 5.00% and mature on November 1, 2012 through November 1, 2027. The term bonds comprise $48,555,000 of the issuance, mature in amounts of $10,680,000, $16,635,000 and $21,240,000 at a rate of 5.00% on November 1 of years 2031, 2036 and 2041, with mandatory sinking fund redemption starting in 2028, 2032, and 2037, respectively.

The 2011B Revenue Bonds were issued with an original issue premium of $2,615,385 and costs of issuance of $646,385, which are amortized over the life of the 2011B Bonds. The outstanding balance of the Series 2011B Bonds was $78,057,393 at December 31, 2011, including unamortized original issue premium of $2,572,393. The terms of the Series 2011B Bond indenture requires the District to maintain certain Obligation Coverage Ratios with which the District has complied for the year ended December 31, 2011.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

A summary of the District's outstanding liability for the 2011B Revenue Bonds is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
November 1, 2012	$ 1,180,000	$ 3,725,850	$ 4,905,850
November 1, 2013	1,215,000	3,690,450	4,905,450
November 1, 2014	1,265,000	3,641,850	4,906,850
November 1, 2015	1,315,000	3,591,250	4,906,250
November 1, 2016	1,380,000	3,525,500	4,905,500
November 1, 2017 – 2021	8,000,000	16,521,250	24,521,250
November 1, 2022 – 2026	10,215,000	14,310,500	24,525,500
November 1, 2027 – 2031	13,040,000	11,488,250	24,528,250
November 1, 2032 – 2036	16,635,000	7,886,500	24,521,500
November 1, 2037 – 2041	21,240,000	3,289,250	24,529,250
Original issue premium	2,572,393	-	2,572,393
Totals	$ 78,057,393	$ 71,670,650	$ 149,728,043

2011C issue – energy – On August 4, 2011, the District issued $75,745,000 of Electric System Refunding Revenue Bonds Series 2011A to refund non-taxable Commercial Paper Series A Notes of $75,000,000 The proceeds of the Commercial Paper Series C Notes were used to finance a portion of the El Centro Unit 3 Repowering Project, fund a reserve account for the bonds and pay cost of issuance of the bonds. The 2011C Revenue Bonds were the last of three issuances to refund commercial paper utilized for the El Centro Unit 3 Repower Project scheduled to be in commercial operation by May 31, 2012.

The Series 2011C Revenue Bonds consist of $75,745,000 serial and term bonds. The serial bonds comprise $26,975,000 of the issuance, mature in amounts ranging from $1,135,000 to $2,225,000 at rates ranging from 3.00% to 5.00% and mature on November 1, 2012 through November 1, 2027. The term bonds comprise $48,770,000 of the issuance, mature in amounts of $10,675,000, $16,735,000 and $21,360,000 at rates of 5.00% to 5.25% on November 1 of years 2031, 2036 and 2041, with mandatory sinking fund redemption starting in 2028, 2032 and 2037, respectively.

The 2011C Revenue Bonds were issued with an original issue premium of $2,276,155 and costs of issuance of $553,411, which are amortized over the life of the 2011C Bonds. The outstanding balance of the Series 2011C Bonds was $77,996,004 at December 31, 2011, including unamortized original issue premium of $2,251,004. The terms of the Series 2011C Bond indenture requires the District to maintain certain Obligation Coverage Ratios with which the District has complied for the year ended December 31, 2011.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

A summary of the District's outstanding liability for the 2011C Revenue Bonds is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
November 1, 2012	$ 1,170,000	$ 3,760,788	$ 4,930,788
November 1, 2013	1,205,000	3,725,688	4,930,688
November 1, 2014	1,255,000	3,677,488	4,932,488
November 1, 2015	1,320,000	3,614,738	4,934,738
November 1, 2016	1,385,000	3,548,738	4,933,738
November 1, 2017 – 2021	8,035,000	16,632,938	24,667,938
November 1, 2022 – 2026	10,245,000	14,414,188	24,659,188
November 1, 2027 – 2031	13,035,000	11,621,150	24,656,150
November 1, 2032 – 2036	16,735,000	7,931,500	24,666,500
November 1, 2037 – 2041	21,360,000	3,308,250	24,668,250
Original issue premium	2,251,004	-	2,251,004
Totals	$ 77,996,004	$ 72,235,466	$ 150,231,470

2011D Issue – Energy – On December 21, 2011, the District issued $22,865,000 of Electric System Refunding Revenue Bonds, Series 2011D, the proceeds of which were used to refund a portion of the District's 2003 Certificates of Participation, fund a reserve account for the bonds and pay cost of issuance of the bonds. The 2011D Bonds refunded $24,825,000 of outstanding 2003 Electric System COPs and generated net present value savings of $2.7 million, or 11.0%, with an average annual reduction in debt service of $300,000.

The 2011D Revenue Bonds consist of $22,865,000 serial bonds maturing in amounts ranging from $2,805,000 to $3,765,000 at a rate of 5.00% from November 1, 2017 through November 1, 2023.

The 2011D Revenue Bonds were issued with an original issue premium of $4,436,209 and costs of issuance of $276,826 which are amortized over the life of the 2011D Bonds. The outstanding balance of the Series 2011D Bonds was $24,808,786 at December 31, 2011, including unamortized original issue premium of $4,436,209 and deferred amount on refunding of $2,492,423. The terms of the Series 2011D Bond indenture requires the District to maintain certain Obligation Coverage Ratios with which the District has complied for the year ended December 31, 2011.

Note 6 – Certificates of Participation/Revenue Bonds (continued)

A summary of the District's outstanding liability for the 2011D Revenue Bonds is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
November 1, 2012	$ -	$ 984,465	$ 984,465
November 1, 2013	-	1,143,250	1,143,250
November 1, 2014	-	1,143,250	1,143,250
November 1, 2015	-	1,143,250	1,143,250
November 1, 2016	-	1,143,250	1,143,250
November 1, 2017 – 2021	15,515,000	4,240,750	19,755,750
November 1, 2022 – 2023	7,350,000	555,750	7,905,750
Original issue premium	4,436,209	-	4,436,209
Deferred amount on refunding	(2,492,423)	-	(2,492,423)
Totals	$ 24,808,786	$ 10,353,965	$ 35,162,751

Note 7 – Other Long Term Debt

Pension obligation revenue bonds, 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 are non callable and 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 $30,920,236 for the water portion and $32,832,828 for the energy portion at December 31, 2011, including unamortized original issue discount of $96,936.

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.

Note 7 – Other Long Term Debt (continued)

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

Due Date	Principal Amount	Interest	Total Debt Service
January 1, 2012	$ 1,595,000	$ 4,355,867	$ 5,950,867
January 1, 2013	1,700,000	4,248,779	5,948,779
January 1, 2014	1,810,000	4,134,704	5,944,704
January 1, 2015	1,925,000	4,013,317	5,938,317
January 1, 2016	2,050,000	3,880,132	5,930,132
January 1, 2017 – 2021	12,590,000	16,994,326	29,584,326
January 1, 2022 – 2026	17,570,000	11,824,985	29,394,985
January 1, 2027 – 2031	24,610,000	4,539,150	29,149,150
Original issue discount	(96,936)	-	(96,936)
Totals	$ 63,753,064	$ 53,991,260	$ 117,744,324

State loans – In 1988, pursuant to the State of California Clean Water Bond Law of 1984, the State of California loaned the District $1.6 million 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, thereby increasing the total obligation to $2,280,000. The unpaid balance at December 31, 2011 was $334,609.

The debt service on the State loan is as follows:

Due Date	Principal Amount	Interest	Total Debt Service
2012	$ 133,336	$ 12,113	$ 145,449
2013	138,736	6,690	145,426
2014	41,275	2,098	43,373
2015	21,262	425	21,687
Totals	$ 334,609	$ 21,326	$ 355,935

The District used cash to defease the entire outstanding balance of the State loan on its scheduled payment date of April 1, 2012. The total amount of the payoff, including interest, was $341,355.64.

Note 8 – Capital Leases

The District acquires certain operating and computer equipment through capital lease agreements expiring at various times through 2016. The outstanding balance was $2,325,744 for the water portion and $3,790,175 for the energy portion at December 31, 2011. The estimated future minimum lease payments, including interest, under these leases are as follows:

Year Ending December 31,	Operating Equipment	Computer Equipment	Total
2012	$ 1,709,836	$ 2,217,653	$ 3,927,489
2013	1,010,405	630,734	1,641,139
2014	720,627	159,162	879,789
2015	152,855	-	152,855
2016	17,195	-	17,195
Total minimum lease payments	3,610,918	3,007,549	6,618,467
Less amount representing interest	(260,885)	(241,664)	(502,549)
Present value of minimum lease payments	$ 3,350,033	$ 2,765,885	$ 6,115,918

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, the District contributes 7% of employees' base salary. Participants in the plan may also make after-tax contributions of up to 18% of their base salary. Total contributions to the plan, including both the employer and employee portions, may not exceed $40,000 for fiscal year 2011. Participants immediately vest in all personal contributions to the plan, and are 100% vested in employer contributions plus actual earnings at the three-year mark. The District's contribution was $6,722,377 and $6,805,502 for the years ended December 31, 2011 and 2010, 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 on a reasonable and consistent basis relative to the benefits derived by each.

Note 11 – Commitments and Contingencies

Self-insurance – The District is self-insured for workers' compensation claims and for health benefits. Excess coverage for health benefits is provided by Sun Life. At December 31, 2011, the District accrued approximately $2,881,618 for water and $6,413,925 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. At December 31, 2011, the District's management has accrued $1,295,000 for the Water Department portion and $2,829,400 for the Energy Department portion for these estimated general liability claims. Such amounts have been included under the financial statement caption entitled "self-insurance" in the accompanying Statement of Net Assets at December 31, 2010.

The unpaid claims liabilities include estimated amounts for incurred but not reported (IBNR) claims. IBNR claims are claims that were incurred during the calendar year but not yet reported at the balance sheet date. Claim liabilities are calculated based on recent claims history and settlement trends.

Changes in the District's self-insurance claims liability for the two years ended December 31, 2011 are as follows:

Liability at January 1, 2010	$ 10,755,604
Incurred claims	920,000
Claim payments and change in estimates	48,775
Liability at December 31, 2010	11,724,379
Incurred claims	1,362,400
Claim payments and changes in estimates	333,164
Liability at December 31, 2011	$ 13,419,943

Note 11 – Commitments and Contingencies (continued)

A summary of the District's self-insurance claims for the two years ended December 31, 2011 are as follows:

December 31, 2011	Current	Long-Term	Total
Water	$ 1,879,191	$ 2,319,927	$ 4,199,118
Energy	4,182,789	5,038,036	9,220,825
Totals	$ 6,061,980	$ 7,357,963	$ 13,419,943

December 31, 2010	Current	Long-Term	Total
Water	$ 1,673,486	$ 1,937,902	$ 3,611,388
Energy	3,795,047	4,317,944	8,112,991
Totals	$ 5,468,533	$ 6,255,846	$ 11,724,379

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:

Type of Coverage	Self-Insurance	Commercial Coverage
Health benefits	Up to $175,000 per person per year	No lifetime maximum

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.

Note 11 – Commitments and Contingencies (continued)

The terms of these contracts require that the District make certain minimum payments, whether or not the District receives energy, based on 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	Palo Verde Project	San Juan Project	Total SCPPA "Take or Pay" Commitment
2012	$ 774,345	$ 8,894,898	$ 9,669,243
2013	772,340	9,028,711	9,801,051
2014	770,292	8,820,472	9,590,764
2015 – 2020*	1,917,208	32,038,760	33,955,968
	$ 4,234,185	$ 58,782,841	$ 63,017,026

* Debt service will be complete in 2017 for the Palo Verde Project and in 2020 for the San Juan Project.

The District also makes monthly payments to SCPPA 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	Fuel	Non-Fuel	Total
2010	San Juan	$ 22,847,689	$ 22,744,623	$ 45,592,312
	Palo Verde	$ 1,003,494	$ 3,980,534	$ 4,984,028
2011	San Juan	$ 22,367,484	$ 23,954,892	$ 46,322,376
	Palo Verde	$ 1,207,844	$ 4,151,123	$ 5,358,967

Note 11 – Commitments and Contingencies (continued)

In addition to the above, SCPPA is party to a petition filed on September 16, 2011 by the Public Service Company of New Mexico (PNM) on behalf of itself and the other San Juan Project owners for Review in the United States Court of Appeals for the Tenth Circuit. This action arises out of a significant dispute under the Federal Clean Air Act between the owners of the San Juan Project and the United States Environmental Protection Agency (EPA). The Clean Air Act (Act) requires states to prevent air pollution from sources within their borders from impairing air quality and visibility in other states. The Act also requires states to reduce pollution from significant sources whose emissions reduce visibility in the nation's pristine and wilderness areas, and contribute to regional haze. When a state has not adopted plans as required by these provisions, EPA must put such a plan in place. The EPA usually defers to the states to implement plans and programs to carry forth the purposes of the Act and the State of New Mexico had proposed such a plan for the San Juan Project which would carry forth these purposes through a long-term program at a potentially reasonable cost. EPA issued a pronouncement proposing to disapprove New Mexico's Implementation Plan for the San Juan Project and proposed a more expensive source-specific plan to cut pollution and to address adverse visibility impacts which the EPA contended originated from the plant. EPA's proposed rule, among other things, imposed extremely stringent additional limits on certain emissions from the San Juan Project than already existed at the plant and mandated installation of a very expensive Selective Catalyst Reduction System (SCRS). During the ensuing comment period with respect to this new EPA rule, the San Juan Project owners protested the installation of the proposed SCRS that may cost the owners between $750 million to $1 billion; the Districts cost portion would possibly range from $48.6 to $64.5 million. The EPA disputed this assertion and indicated that the proposed upgrade would only cost approximately $345 million. On August 22, 2011 the EPA published its final ruling in this matter ordering the installation of the full SCRS at the San Juan Project. While this case has concluded the administrative stages of this dispute before the EPA, the parties are just beginning the course of the litigation in the appellate courts. At the current time, it cannot be determined with any certainty whether the owners will prevail in this matter or whether the EPA will prevail or what the eventual outcome or determination of the courts might be.

Energy supply purchase commitment –

- 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 all available power up to 26 megawatts in any given hour during winter months and 32 megawatts in any given hour during summer months. As of December 31, 2011, the District's estimated remaining purchase commitment under this agreement is $35,273,037.

- The District has entered into contracts with various vendors to purchase natural gas. These commitments vary in the amount of natural gas to be purchased and when the natural gas will be delivered to the District. Open commitments of the District at December 31, 2011 totals $35,300,401.

Note 11 – Commitments and Contingencies (continued)

The list of contracts is as follows:

Vendor	Delivery Period	Liability
Barclays	January 2012 to December 2013	$ 12,846,343
BP	May 2012 to October 2012	2,369,885
EDF Trading North America	February 2013 to September 2014	13,756,628
Shell	January 2012 to December 2012	6,327,545
		$ 35,300,401

- The District has entered into contracts with various vendors to purchase energy. These commitments vary in the terms and the amount of energy to be purchased, and when the energy will be delivered to the District. The estimated remaining commitment of the District at December 31, 2011 is $31,391,469 based on contract pricing.

The contracts are as follows:

Vendor	Delivery Period	Liability ($000's)
Coral Power	January 2012 to December 2017	$ 26,165,819
Shell	May 2012 to September 2012	2,394,800
Morgan Stanley	January 2012 to April 2012	1,075,600
EDF Trading North America	May 2012 to September 2012	247,500
Macquarie	May 2012 to September 2012	513,750
Yuma County Water User Association	January 2012 to December 2012	994,000
		$ 31,391,469

Note 11 – Commitments and Contingencies (continued)

Water Fallowing Commitments– Under a joint set of agreements collectively known as the Quantification Settlement Agreement (QSA), the district is permitted to fallow land for a period of years in order to generate conserved water for transfer to the San Diego County Water Authority. The QSA stipulates a set number of acre-feet of water per year to be made available by fallowing through 2017. For the 2011 calendar year this amount was 80,000 acre-feet. However, as a consequence of pending litigation and uncertainty, in early 2011 the district limited contracting for the fallowing program and, as a result, only fallowed land sufficient to meet the calendar year 2011 water transfer obligations in the 2011–2012 fallowing program. The district's fallowing program runs from July 1st of each year through June 30th of the following year to coincide with farm leases and local farming practices. As a result, only 63,278 acre-feet of the 2011–2012 fallowing program's conserved water was created in calendar year 2011. The balance of approximately 16,722 acre-feet was not physically conserved until the first half of the 2012 calendar year. To further complicate matters, the Bureau of Reclamation accounts for water deliveries on a calendar year basis, and has indicated in its 2011 Colorado River Accounting and Water Use Report that it has taken the accounting of the 16,722 acre-feet conservation shortfall under review. The Bureau of Reclamation's 2011 official report notes this water accounting uncertainty, and until such time as the decision becomes final, the district has elected to defer revenue totaling $7.5 million representing water transfer proceeds received from the San Diego County Water Authority related to this conservation shortfall.

Letter 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. In August 2011 the District requested the amount of funding assurances be reduced because some of the mitigation secured by the funding has been completed. The California Department of Fish and Game approved Amendment No. 2 to Permit No. 2081 to reduce the amount of the security from $1,155,150 to $427,350.

The Letter of Credit will automatically be extended for a period of one year until official written notification is provided. 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).

Note 12 – Construction Commitments

At December 31, 2011, the District had the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Water		
Various projects	$ 2,983,100	2012
Caltrans project	1,264,300	2012
System Conservation Program	23,084,300	2012
Power		
El Centro Generating Station Unit 2 Major Overhaul	1,119,948	2012
Yucca Cooling Tower	3,062,625	2012
El Centro Unit #3 Repower	38,536,933	2012
CD Line Reconductoring	1,814,493	2012
S-Line 230kV Transmission Upgrade – Phases 1 & 2	1,822,716	2012
Avenue 58 Substation	5,318,308	2012
Alamorio Substation Distribution Line Upgrade	1,041,834	2012
230 kV & 161 kV Relay Protection Replacement	1,762,368	2012
El Centro Generating Station Deep Injection Wells	12,411,672	2014

Note 13 – Other Post Employment Benefits Other Than Pensions

In 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 post-employment 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.

Note 13 – Other Post Employment Benefits Other than Pensions (continued)

Plan membership consisted of the following at December 31, 2011:

Retirees over 65 and dependents receiving benefits	564
Retirees under 65 receiving benefits	123
Total active employees in the plan	1,237
Total	1,924

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 26. 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 2011 which will be utilized for fiscal years 2010–2011. The District is currently funding the Annual OPEB Obligation through revenues.

Annual OPEB cost and net OPEB obligation – 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 30 years. The following table shows the components of the District's annual OPEB cost that is being utilized for fiscal years 2010–2011.

Annual required contribution	$ 17,881,078
Pay as you go contributions to the plan	(4,887,956)
Increase in net OPEB obligation	12,993,122
Net obligation, beginning of year	45,945,005
Net obligation, end of year	$ 58,938,127

Note 13 – Other Post Employment Benefits Other than Pensions (continued)

The District's annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and net total OPEB obligation for 2011 and two preceding years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net Total OPEB Obligation
December 31, 2009	$ 16,370,946	25.3%	$ 34,644,721
December 31, 2010	16,370,947	30.0%	45,945,007
December 31, 2011	17,881,078	28.4%	58,938,127

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 2011, the annual required contribution for OPEB was $17.8 million and was recorded as an expense. The District has internally reserved cash in the amount of the total aggregated OPEB Obligation liability for 2007–2011 of $58.9 million. The decision on how the liability is going to be treated beyond 2011 is still to be determined. The establishment and funding of an irrevocable trust, pay-as you-go, or setting aside a dedicated reserve are some of the assessments under consideration.

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 5% 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 8% initially, reduced by decrements of 1% per year to an ultimate rate of 5% after the fifth year. Both rates included a 3% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 30 years. The District's payroll is not used in the amortization of the UAAL. A level dollar payroll method is used.

Schedule of funding progress – (amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Projected Unit Cr(b)	Unfunded AAL U(UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	Percentage of Covered Payroll ([b – a] / c)
December 31, 2009	$ -	$ 150,522	150,522	0.0%	95,911	156.9%
December 31, 2010	-	150,522	150,522	0.0%	100,514	149.8%
December 31, 2011	-	182,649	182,649	0.0%	100,996	180.8%

Note 14 – Metropolitan Water District Water Conservation Program

In December 1988, the District and the 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 these projects, which total between 100,000 and 110,000 acre-feet annually. The water must be used in the calendar year it is conserved. In 2011 and 2010, the District received $9,992,918 and $10,148,778, respectively, as reimbursement for approved capital, operation, and maintenance costs.

Cumulative payments received since inception total approximately $239,201,980 through December 31, 2011. The District is to be reimbursed for approved amounts, including certain indirect costs, through the year 2028.

Note 15 – Salton Sea Authority

The District is a member of the Salton Sea Authority (the 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 certain continued beneficial use 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, the counties of Imperial and Riverside, each of which appoints two voting members, and the Torres Martinez Indian Tribe with one voting member 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.

Note 15 – Salton Sea Authority (continued)

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 Farms Land, 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 (COPs) for $87,725,000 to acquire the Western Farms Land. 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 Farms 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 Farms Land (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 2011, sales of Western Farm Lands totaled $6.86 million, for 1,408 acres. 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.

Note 17 – Noncurrent Advances

San Diego County Water Authority (SDCWA) advance – Pursuant to section 5.6 of the Revised 4th 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, 2011, the balance of the advance from SDCWA was $10 million.

In addition during 2010 the SDCWA advanced $50 million to the District to fund capital projects necessary to implement system efficiency measures designed to conserve water for subsequent transfer to the SDCWA, as required under the terms of the QSA. The terms of the agreement dictate that if a water transfer stoppage occurs as a result of a court order, and the stoppage results in the termination of the agreement, the District must repay the SDCWA as set forth below:

	Amount of Repayment
Year of termination	
2011	$ 32,000,000
2012	25,000,000
2013	20,000,000
2014	15,000,000
2015	12,000,000
2016	9,000,000
2017	6,000,000
2018 – 2020	5,000,000

As of December 31, 2011, the District recognized as revenue $18 million of the $50 million advance, representing the portion that is no longer subject to repayment under the repayment release clause. Of the total $50 million advance, only $1.8 million has been spent on conservation programs. A liability for the portion of the advance still subject to the potential repayment is included in the accompanying Statement of Net Assets, with $7 million included under current liabilities – other deferred revenue, and the remaining $25 million under long-term liabilities – advances.

Transmission expansion and generator interconnection agreements – A number of renewable independent power merchant projects are planned or under development in the District's service area. The majority of the energy associated with these projects will be exported to users in southwestern California and Arizona. Currently, projects totaling 2,739 MW of generation are requesting interconnection to the District's transmission system. It is anticipated that much of this proposed generation could come on line within the District's service area by 2020 to meet California's utilities' renewable portfolio requirements.

Note 17 – Noncurrent Advances (continued)

The proposed merchant generation will require the expansion and upgrading of the District's existing transmission facilities to accommodate the injection of renewable power onto and out of IID's service territory into the CAISO. These network upgrades will be initially funded primarily by those independent power producers requesting interconnection to the District's system and seeking transmission services. The District will provide reimbursement through transmission rate credits taken against transmission service charges.

The District has completed the Transitional Cluster interconnection study process, resulting in the execution of nine Generator Interconnection Agreements for projects proposing injection of 929.5 MW into the District's system. Additionally, the District completed the study process and signed Generator Interconnection Agreements for three solar PV projects proposing injection of 150 MW into the District's system and exporting to the CAISO for the benefit of San Diego Gas & Electric. The District is in the process of studying Cluster 1, comprised of 24 projects seeking interconnection to the District's system and proposing injection of 1,660 MW. As of December 31, 2011 and 2010, the balance of amounts paid to the District by participating generators and available for use to fund future studies and construction totaled $12.3 million and $1.6 million, respectively, and are included under current Advances and Deposits from Customers in the accompanying Statements of Net Assets.

Other advances – At December 31, 2011, the District held noncurrent deposits from customers in the amounts of $36,215,224 and $344,897 for the Water and Energy departments, respectively. At December 31, 2010, the balance in the Water and Energy departments were $45,322,540 and $996,355, 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 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 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.

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

The following is a summary of the Districts water transfer and environmental mitigation obligations related to the QSA for the period 2011–2015:

	Water Transfer SDCWA – CVWD		Mitigation Water Salton Sea		IID Environmental Payment Obligations	
Year	Quantity Acre-feet	Value	Quantity Acre-feet	Value	QSA-JPA	Salton Sea Restoration
2011	79,278	$ 29,320,068	26,667	$ 533,340	$ 1,331,579	$ 300,356
2012	111000	45,667,350	45,000	5,219,800	1,542,967	348,038
2013	126000	55,820,000	70,000	8,343,000	1,765,841	398,310
2014	131000	61,848,690	90,000	11,021,700	1,818,816	410,259
2015	136000	65,326,080	110,000	13,841,400	1,873,380	422,567

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 resulted in a Judgment in 2010 (the Judgment) in which the Superior Court found that 12 of the 13 QSA and Related Agreements which were before the Court violated the State Constitution and were therefore invalid (on one contract there was no ruling). Because of this finding of invalidity, various other coordinated cases included in the environmental review process and mitigation for some of the QSA and Related Agreements were dismissed as moot. The Judgment was appealed by IID and other parties.

Oral argument on the appeal was heard on November 21, 2011. On December 7, 2011, the Third District Court of Appeal issued a lengthy decision in which it overturned the trial court's invalidity judgment, and remitted the case for trial of the rest of the matter. Quantification Settlement Agreement Cases (2011) 201 Cal.App.4th 758. The main issue in the appeal was whether the State of California's (the State) commitment to pay excess mitigation costs, if any, was constitutional. The Court of Appeal ruled that it was. The Court of Appeal agreed with IID, the State, and the other QSA agencies that nothing in the contract made funds actually exit the State treasury without an appropriation. The State, if the contingent payment need arises, has a contractual obligation to pay. If it does not pay it will be in breach of contract, which will give the agencies the remedy of acquiring a judgment. The judgment, as with all debts against the State, is only paid when there is an appropriation (or, if there was one already in existence for the purpose, then by enforcement against that fund). The State's obligation is unconditional, but whether it actually will ever have to pay is contingent on future facts as to what mitigation costs are. There was no constitutional violation.

Numerous losing parties sought rehearing from the Court of Appeal, which that Court denied. Petitions for review were then filed with the California Supreme Court by Imperial County, Cuatro del Mar, POWER and the Morgan/Holtz parties. On March 14, 2012, the California Supreme Court denied review. The QSA cases have now been returned to the Sacramento Superior Court for trial of remaining issues.

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

Lawsuits in the coordinated QSA litigation 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. However, all lawsuits for damages were dismissed by the Superior Court and were not appealed.

In the event that any of the above referenced challenges to the propriety of the QSA and Related Agreements are successful; there is the potential that the QSA and Related Agreements would be set aside. There are attorney's fees and cost claims which could be brought against IID and other parties, but the viability of such claims are dependent not only on the merits of the claims but also upon the results of the appeal. The district is unable to project what amount of attorney's fees and costs could ultimately be imposed, if any.

IID

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