IMPERIAL IRRIGATION DISTRICT

Working NOW
To Serve Your
Needs
TOMORROW.

Annual Report 1995

At The Crossroads: The I.I.D. in 1995

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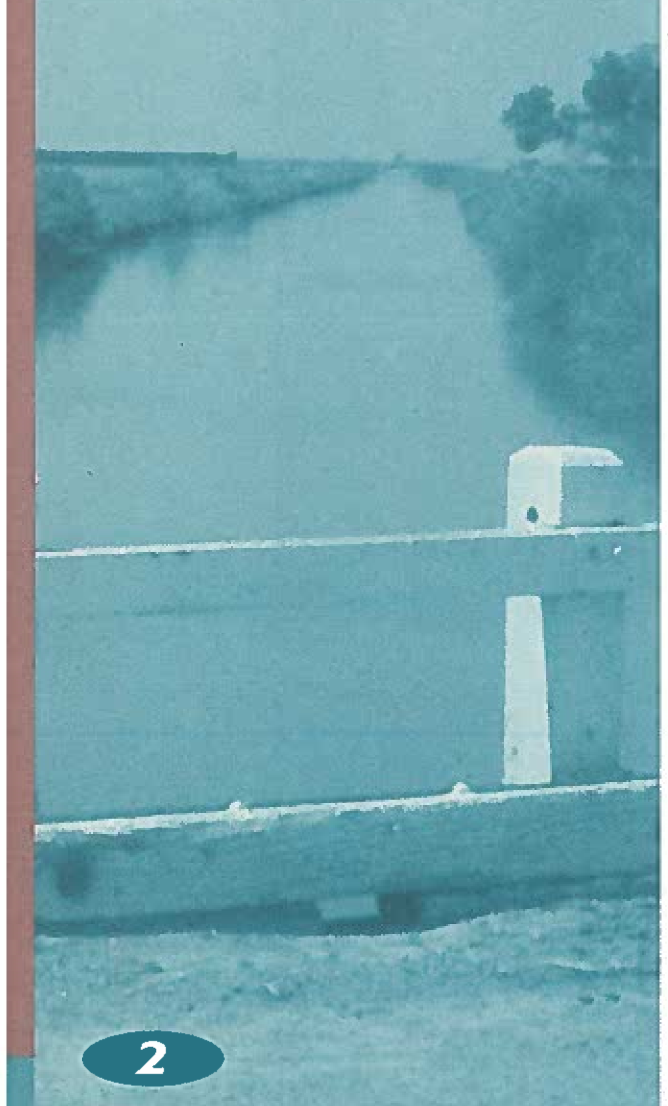
"The I.I.D. is the world's largest irrigation district with over 3,000 miles of interlocking canals, laterals and drainage ditches."



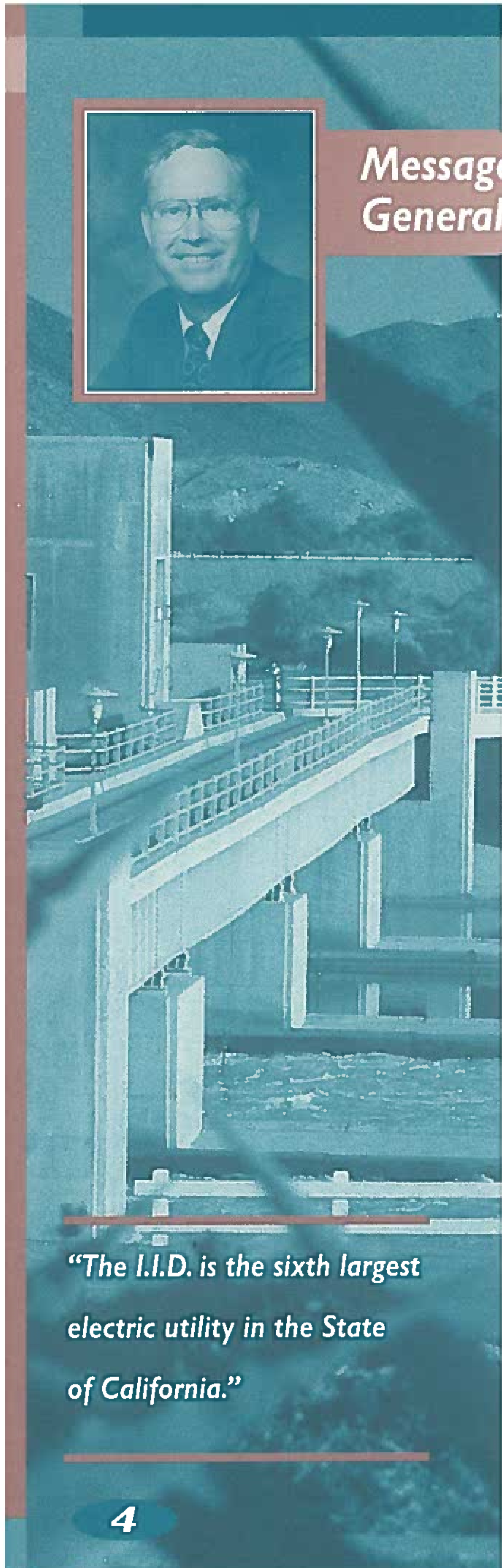
The history of the Imperial Valley, like the history of the West itself, is all about water – where to get it and how best to effect its continued, stable delivery. It is the foundation of the region's dominant industry, agriculture, which accounts for approximately 65 percent of Imperial County's total economy. And it is the chief reason that the Imperial Irrigation District was formed in 1911, by action of the state Legislature, to devise and successfully operate a water delivery system for the Colorado Desert. That delivery system, with over 3,000 miles of interlocking canals, laterals and drainage ditches transporting nearly three million acre-feet of water per year, constitutes the world's largest irrigation district and has become a model of operating efficiency and technical innovation.

Today, the IID's Water Department serves over 6,300 farm accounts in the Imperial Valley, an area comprising nearly 500,000 acres of cultivated lands and representing nearly $1 billion a year in crops. Likewise, the District's Power Department provides electricity to approximately 85,000 residents of the Imperial and Coachella valleys, at a cost-per-kilowatt-hour that is consistently among the lowest in the western states. The District's five-member board sets policy and strategic direction for the District's 1,200 employees, while administering a combined operating budget of about $250 million a year.

Clearly, the Imperial Irrigation District has grown in size and influence over the course of the last 85 years, but its fundamental mission remains the same: to provide reliable water delivery service to Imperial Valley agriculture and affordable electricity to consumers. Change is a constant in the water and power industries, but 1995 was a year like no other for the IID, which stepped up its presence significantly throughout the West and became a dynamic force in the emerging areas of water marketing and electric power deregulation.

1995 Among the highlights of the past year were:

- The board selected a new general manager, Michael J. Clinton, in May
- Adopted a more assertive posture in all matters related to water allocation and resource management of the Colorado River
- Mobilized a Power Consumers Advisory Group
- Initiated a study of the District's existing rate structure
- Signed a Memorandum of Understanding (MOU) with the San Diego County Water Authority to explore a water conservation and transfer program
- Began an emergency program to protect or purchase private property along the shoreline of the rising Salton Sea



Message from the General Manager

The Imperial Irrigation District is a large, diverse organization with a proud history of service to the Imperial and Coachella valleys, and we intend to build on that history as we approach the new millennium, and the inevitable challenges that lie ahead.

The nearly 1,200 men and women who make up the IID – whether they are engineers or zanjeros, managers or front-line employees – are in the customer service business, and we want to make certain that our people, and our customers, understand this simple truth of doing business. That is why we have instituted training programs for all District employees on team-building, problem-solving and personal empowerment, so that our workforce is equipped with the organizational knowledge and technical proficiency necessary to manage change.

And change is coming; in the Power Department, with the advent of industry deregulation, and in the fast-moving world of Western water. The board assumed a leadership position in 1995 with its adoption of "IID-2000," a document which set forth the district's strategic and policy goals in the areas of water marketing and water conservation. This resulted in talks between the IID and officials of the San Diego County Water Authority, and the Memorandum of Understanding signed by both agencies in September to begin negotiations on a possible transfer of conserved water.

The past year was a productive one for the IID on a number of fronts. We are continuing to manage our resources-both human and technological-responsibly and efficiently, while moving forward with plans that will greatly increase our support for the communities we serve, and enhance our competitive position in the marketplace. We are doing more than ever before to expand our public outreach and to make it easier for our consumers to find answers to their questions and resolutions to their concerns. We are working diligently to uphold and defend the Imperial Valley's historic water rights and "the law of the river," which has guided Colorado River water policy for nearly 75 years.

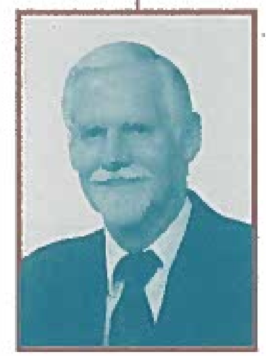
The Imperial Irrigation District has posted a remarkable record of achievement in the Imperial and Coachella valleys over the course of most of this century. In 1995, we began making the changes necessary to continue this tradition into the 21st century.

Michael J. Clinton
General Manager

"The I.I.D. is the sixth largest electric utility in the State of California."

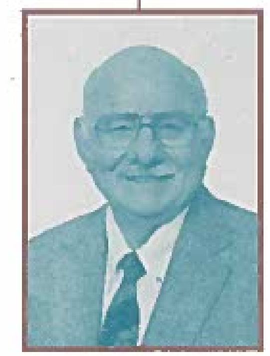
Board of Directors

William R. Condit
Division 1

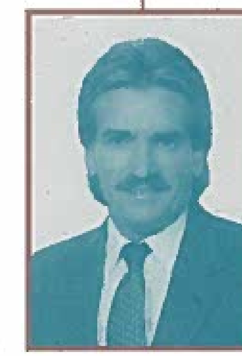


Ted H. Lyon
Division 2

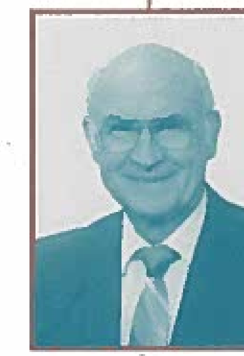
Lloyd W. Allen
Division 3



Ralph M. Menvielle
Division 4



Don H. Cox
Division 5



Managers

Michael J. Clinton
General Manager

Robert A. McCullough
Assistant General Manager

Jesse P. Silva
Assistant General Manager, Water

Kenneth S. Noller
Assistant General Manager, Power

William R. Mordah
Manager, Operations Services

Darryl L. Croft
Manager, Personnel

Kristine K. Fontaine
Manager, Finance and Accounting

Randall K. Stocker
Manager, Planning and Technical Services

The IID and A New Power Paradigm

The Imperial Irrigation District entered the power generation and delivery business in 1932, eventually becoming the region's supplier of electricity. Over the years since, the regulatory environment has changed and, with the imminent deregulation of the power industry, 1995 was a year for the District to reassess its programs and competitive position in the market as it prepares for "open access."

As a result of the Federal Energy Policy Act of 1992, the proponents of competition and open transmission access are now driving the politics of the consumer power industry, and established energy producers like the Imperial Irrigation District will now have to open their transmission lines to independent non-utility producers and other power marketeers involved in the resale of energy. Because low-cost producers will be in the best position to meet the coming challenge of deregulation, the IID joined the Southwest Regional Transmission Association (SWRTA), a consortium of regional utilities providing coordinated transmission access. The Board also commissioned a study of its rate structure, and mobilized a Power Consumers Advisory Group to assist the District in determining whether or not power rates should be raised in 1995. Board members eventually decided against any increase in rates by a 3-2 vote.

One preliminary finding of the comprehensive rate study, undertaken by R.W. Beck and Associates, a Phoenix-based consulting firm, was that seasonal rates should be considered in place of the flat rate the IID now charges its customers. This would save money over time, primarily during the summer months, when demand from customers is highest and when the District frequently requires additional power, which it must purchase from other utilities. A major focus of the study also addresses the District's competitive pricing structure, particularly as it relates to several distinct "classes" of customers, such as residential, commercial and industrial power users.

The summer of '95 brought not only record heat but widespread media attention, as at least 15 heat-related deaths occurred in the early part of August. Much of the publicity centered on the District's voluntary Electrical Assistance Fund established in early 1995 and administered through the United Way of Imperial County.

Power Department staff prepared a Business Assessment and Strategies paper in November, which, in addition to identifying key changes in the industry brought on by deregulation, also highlighted the District's many strengths as it approaches this new era of competition. Among these strengths are: the District's non-profit status provides access to lower-cost capital; a rate/cost advantage over investor-owned utilities; the ability to operate with local regulatory oversight, making the IID more responsive than competing, investor-owned utilities, and geographic proximity to Arizona and neighboring states, which means access to a large and relatively inexpensive power supply.

The Imperial Irrigation District's demonstrated commitment to competitive pricing, along with timely planning and careful attention to the customer should ease the transition to an emerging, market-based industry. Strategic decisions made by the IID in 1995, together with a willingness to remain flexible in 1996 and beyond, will help ensure that the Power Department retains its competitive position in the Imperial and Coachella valleys.

The IID and The Salton Sea

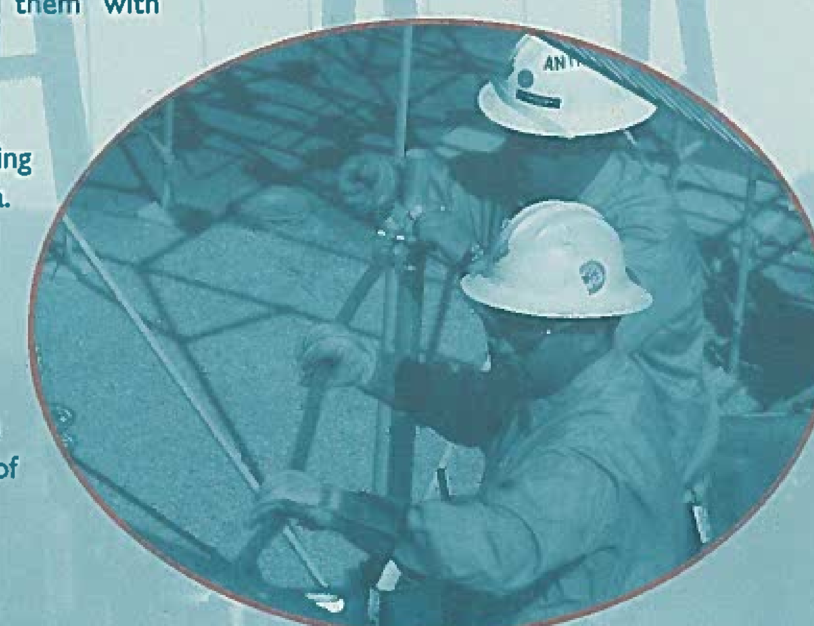
The Salton Sea has historically served as a natural repository for the Imperial Valley's agricultural drainage water – up to a million acre-feet per year. The Sea also receives agricultural runoff from the Mexicali and Coachella valleys, as well as storm flows. With heavy storms early in 1995, the Sea began to rise dramatically, resulting in the flooding of property situated along the shoreline. The rising level of the Salton Sea has been a continuing source of concern to the District, especially since 1986 when the IID was held liable for flooding damages from the rising Sea.

This year the District began emergency construction projects to raise dikes and sea walls to protect the south end, and also bought property, where it was prudent, to prevent future liabilities. A lawsuit brought by mobile home park owners was settled, as was a separate lawsuit filed by 30 residents of the same park. In the meantime, other residents hired attorneys who filed additional claims. By May, the water level had risen five inches above what it had been the year before. Several teams of IID representatives were dispatched to the area to meet personally with residents, and District employees helped many of them with relocation.

In all, the District spent more than $9 million in 1995 to combat flooding problems associated with the Salton Sea. Construction projects and legal settlements were financed through a 50-cent increase in water rates, and through money borrowed from an Indirect Fund, established as part of the 1989 water transfer agreement between IID and Metropolitan Water District of Southern California.

It has been estimated that an additional $12 million will be needed to settle claims filed in 1995. One current District project involves the establishment of evaporation ponds on private and public land and along river bottoms. The IID is also using existing ponds and duck clubs throughout the Imperial Valley to increase evaporation before the water is returned to the drains.

The implementation of water conservation measures to reduce the level of the Salton Sea would require a significant capital commitment that the agricultural community cannot afford on its own. The District is a member of the Salton Sea Authority, a joint powers agency representing Imperial and Riverside counties, the IID and the Coachella Valley Water District. The process to determine the right course of action regarding the Salton Sea is an open one. It became clear in 1995 that the legal, environmental and public policy questions surrounding management of the Sea require a long-term solution to address both the level and the salinity of the Sea.



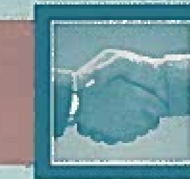
The IID, Water Conservation and Water Marketing

Few subjects inspire as many divergent opinions in the desert as water. It was true in 1989, when the IID signed its original agreement with the Metropolitan Water District of Southern California to transfer conserved water in exchange for improvements to the IID water delivery system. It remained true in 1995, when the District and the San Diego County Water Authority signed a Memorandum of Understanding (MOU) to pursue a possible water conservation and transfer program between the two agencies. The announcement was made in September, and what followed was a series of discussions that would extend into 1996, the ramifications of which have been felt throughout the West.

Because the IID is by far the largest water user on the Colorado River, the pressure to conserve has been building for many years. During its April 4 meeting, the board adopted a set of principles contained in a document known as "IID – 2000." In it, directors committed to paper their intention to fund water conservation measures through a commercially priced water marketing program. This eventually led to negotiations with the San Diego County Water Authority.

The District's position throughout these discussions has been that IID holds the water – and the attendant water rights – in trust for the landowners within its service area. It is a system that has served the District and the agricultural community well for over 50 years. But the IID is subject to state and federal rules and regulations concerning the "reasonableness" of its water use, and those rules and regulations clearly favor water conservation and marketing as wise water management. In fact, entering into an agreement to transfer conserved water at this time may be the best way for the District to protect and strengthen its existing water rights.

The amount of water to be transferred, along with the price and duration of any agreement, has not yet been determined. Much will depend on the results of the District's updated *Water Requirements and Availability Study*, which will forecast the region's water needs through the year 2045 and is scheduled for release in 1996. But the District is committed to charting its own course in the new frontier of water marketing, even as it works to find consensus among all of the interested parties. The process is ongoing, and the outcome could very well shape the future of Western water policy.



The IID and People

The Imperial Irrigation District, with its 1,200 employees, is one of the largest employers in the Imperial Valley, and it is a responsibility the District does not take lightly. In 1995, the IID hired a new general manager, Michael J. Clinton, and his arrival in May corresponded with a new era of participatory management and more opportunity for open communication within the organization. Today, the focus is on people at the IID, both internally and outside the organization.

Telling the IID story to the various publics served by the District has historically fallen to the Public Information Office (PIO). In July, that office was folded into a new External Affairs Department, and the newly-reconstituted department stepped up its activities in Media/Communications, Community Relations and Government Relations and Environmental Affairs. Each of these functions is seen as critical to an organization that has become increasingly communications- and information-driven. Through its Media/Communications section, the IID produced and distributed an award-winning video, "Abundance from the Desert Floor," and its Community Relations staff carried out an aggressive public outreach program in support of the District's water marketing and conservation efforts.

Also important are the District's intensified legislative and governmental affairs capabilities, both in-house and through consultants. Perhaps none of the District's external publics can have a greater impact on current and future operations than government, whether at the local, state or federal levels. In 1995, the IID's relations with all governmental agencies were formed by the work of a highly-trained and effective Government Relations Office, often in cooperation with the District's Environmental Compliance Section.

Environmental issues continue to occupy much of the District's time and resources, and with roughly 3,000 miles of open waterways in the IID system and some 4,500 miles of power lines, there is a lot of environment to consider. The Environmental Compliance Section has been especially concerned with certain provisions of the Federal Clean Water Act and Endangered Species Act, which could affect the way the District's irrigation and drainage system is managed.

In 1995, the District sought and received legislation in Sacramento that would enable the IID to sell its triploid grass carp – a weed-eating fish that has been used with great success to reduce the proliferation of hydrilla in District canals – to other water districts and golf course owners in Riverside, Imperial and San Bernardino counties, where permits would be available through the state Department of Fish and Game. The IID raises approximately 50,000 sterile grass carp a year, of which only about 25,000 are used to stock District canals. The remainder now can be sold to partially support the District's fish-raising program.

But beyond the internal changes and employee empowerment programs going on within the District, there is also a new openness and spirit of accommodation that characterizes the organization's daily interactions with the public. This is true at an official level, such as during board meetings, where public comment is not only sought but actively solicited, and at an operational level.

An example of how a comparatively small thing can make a big difference to District customers was the board's decision in July to install a new telephone system at a cost of $525,000 over the next five years. At first, the discussion among board members centered on the seemingly large amount of money involved, but after hearing from a committee made up of employees who reported that customers were having trouble getting through to the IID, often encountering a busy signal when they called in, the motion to approve the new phone system was passed unanimously. Board members recognize that how the IID performs in the future will be decided, to a great extent, by how well it treats the customer.

Independent Auditors' Report

KPMG PEAT MARWICK LLP; CALDERON, JAHAM & OSBORN

The Board of Directors
Imperial Irrigation District:

We have audited the accompanying combined balance sheets of Imperial Irrigation District (District) as of December 31, 1995 and 1994 and the related combined statements of income, changes in District equity and cash flows for the years then ended. These combined financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In accordance with Government Auditing Standards, we have also issued a report dated February 28, 1996 on our consideration of Imperial Irrigation District's internal control structure and a report dated February 28, 1996 on its compliance with laws and regulations.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Imperial Irrigation District as of December 31, 1995 and 1994 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

February 28, 1996

Combined Balance Sheets

December 31, 1995 and 1994

Assets	1995			1994		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Current assets:						
Cash and investments *(note 2)*	$ --	74,194	74,194	--	1,497	1,497
Receivables:						
Trade	6,182,167	16,900,673	23,082,840	4,666,103	15,468,582	20,134,685
Interest	286,495	1,089,671	1,376,166	481,112	1,652,739	2,133,851
Other	686,774	1,594,661	2,281,435	188,392	3,413,107	3,601,499
	7,155,436	19,585,005	26,740,441	5,335,607	20,534,428	25,870,035
Less allowance for doubtful accounts	(170,621)	(3,573,616)	(3,744,237)	(160,941)	(2,668,186)	(2,829,127)
Net receivables	6,984,815	16,011,389	22,996,204	5,174,666	17,866,242	23,040,908
Inventories:						
Fuel oil	--	3,123,787	3,123,787	--	2,958,339	2,958,339
Materials and supplies	789,360	10,602,987	11,392,347	842,320	9,981,370	10,823,690
Total inventories	789,360	13,726,774	14,516,134	842,320	12,939,709	13,782,029
Prepaid expenses and deferred charges	64,066	2,732,720	2,796,786	75,937	2,650,401	2,726,338
Total current assets	7,838,241	32,545,077	40,383,318	6,092,923	33,457,849	39,550,772
Cash and investments, restricted as to use and allocated for *(note 2)*:						
Debt service	263,036	24,228,266	24,491,302	566,914	24,058,706	24,625,620
Construction	2,649,015	54,346,252	56,995,267	4,388,750	54,534,509	58,923,259
Self-insurance	15,391,000	3,166,000	18,557,000	7,259,072	1,119,072	8,378,144
Employee-deferred compensation *(note 4)*	7,837,106	7,837,106	15,674,212	6,929,501	6,929,501	13,859,002
Other	4,229,454	18,169,833	22,399,287	21,895,578	6,335,541	28,231,119
	30,369,611	107,747,457	138,117,068	41,039,815	92,977,329	134,017,144
Utility plant, at cost *(note 3)*:						
Plant in service	281,876,427	711,677,528	993,553,955	263,298,622	686,919,350	950,217,972
Less accumulated depreciation	(58,338,851)	(213,126,576)	(271,465,427)	(52,307,976)	(196,165,513)	(248,473,489)
	223,537,576	498,550,952	722,088,528	210,990,646	490,753,837	701,744,483
Construction in process	610,850	1,896,263	2,507,113	518,432	1,611,911	2,130,343
	224,148,426	500,447,215	724,595,641	211,509,078	492,365,748	703,874,826
	$ 262,356,278	640,739,749	903,096,027	258,641,816	618,800,926	877,442,742

Continued

Combined Balance Sheets

December 31, 1995 and 1994

Liabilities and District Equity	1995 Water Department	1995 Power Department	1995 Combined	1994 Water Department	1994 Power Department	1994 Combined
Current liabilities:						
Current maturities of long-term debt *(note 5)*	$ 365,691	11,563,918	11,929,609	239,780	10,715,130	10,954,910
Accounts payable	1,128,331	11,647,020	12,775,351	1,649,150	11,969,488	13,618,638
Accrued interest payable	18,866	1,866,409	1,885,275	18,308	2,019,966	2,038,274
Accrued compensation and payroll taxes *(note 14)*	2,968,125	2,968,125	5,936,250	1,240,910	1,240,910	2,481,820
Accrued compensated absences *(note 14)*	596,887	898,180	1,495,067	1,684,288	1,805,690	3,489,978
Deferred revenues	3,079,021	--	3,079,021	2,512,000	--	2,512,000
Total current liabilities	8,156,921	28,943,652	37,100,573	7,344,436	27,751,184	35,095,620
Liabilities payable from restricted assets:						
Other accrued expenses, noncurrent portion *(note 12)*	15,946,000	2,221,000	18,167,000	15,946,000	2,221,000	18,167,000
Employee-deferred compensation *(note 4)*	7,837,106	7,837,106	15,674,212	6,929,501	6,929,501	13,859,002
Advances and deposits from customers	365,778	1,539,334	1,905,112	413,220	1,515,506	1,928,726
Refundable to customers	--	16,101,411	16,101,411	--	4,257,806	4,257,806
	24,148,884	27,698,851	51,847,735	23,288,721	14,923,813	38,212,534
Long-term debt *(note 5)*:						
Certificates of participation *(note 6)*	--	156,524,643	156,524,643	--	167,118,028	167,118,028
Bonds payable *(note 8)*	1,809,997	--	1,809,997	1,880,543	--	1,880,543
Capital leases *(note 9)*	835,435	1,125,607	1,961,042	252,242	374,816	627,058
	2,645,432	157,650,250	160,295,682	2,132,785	167,492,844	169,625,629
Deferred credits and other liabilities:						
Advances for construction	--	8,778	8,778	--	10,035	10,035
Accrued vacation and sick leave, noncurrent portion	2,097,896	1,874,018	3,971,914	728,489	776,509	1,504,998
	2,097,896	1,882,796	3,980,692	728,489	786,544	1,515,033
Total liabilities	37,049,133	216,175,549	253,224,682	33,494,431	210,954,385	244,448,816
District equity:						
Contributions in aid of construction	95,842,210	34,036,762	129,878,972	92,223,021	39,889,212	132,112,233
Retained earnings	129,464,935	390,527,438	519,992,373	132,924,364	367,957,329	500,881,693
Total District equity	225,307,145	424,564,200	649,871,345	225,147,385	407,846,541	632,993,926
	$ 262,356,278	640,739,749	903,096,027	258,641,816	618,800,926	877,442,742

See accompanying notes to combined financial statements.

Combined Statements of Cash Flows

Years ended December 31, 1995 and 1994

	1995 Water Department	1995 Power Department	1995 Combined	1994 Water Department	1994 Power Department	1994 Combined
Cash flows from operating activities:						
Operating income (loss)	$ (7,980,384)	25,789,637	17,809,253	(11,343,593)	37,003,135	25,659,542
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization *(note 3)*	6,321,968	21,071,690	27,393,658	6,104,889	19,056,129	25,161,018
(Gain) loss on disposal of property	(18,040)	262,627	244,587	338,732	165,237	503,969
Heber-Mirage transmission credits *(note 12)*	--	(8,886,633)	(8,886,633)	--	(8,966,453)	(8,966,453)
(Increase) decrease in assets and increase (decrease) in liabilities:						
Trade accounts receivable	(1,516,064)	(1,432,091)	(2,948,155)	82,761	(1,851,205)	(1,768,444)
Other receivables	(498,382)	1,818,446	1,320,064	110,733	(159,028)	(48,295)
Allowance for uncollectible accounts, net	9,680	905,430	915,110	31,554	366,954	398,508
Inventories	52,960	(787,065)	(734,105)	(193,580)	(621,846)	(815,426)
Prepaid expenses and deferred charges	11,871	(82,319)	(70,448)	(26,641)	(1,556,947)	(1,583,588)
Accounts payable	(520,819)	(322,468)	(843,287)	(520,195)	(966,103)	(1,486,298)
Accrued compensation and payroll taxes *(note 14)*	1,727,215	1,727,215	3,454,430	410,051	410,051	820,102
Accrued compensated absences *(note 14)*	282,006	189,999	472,005	518,771	200,436	719,207
Deferred revenues	567,021	--	567,021	28,058	--	28,058
Other accrued expenses	--	--	--	9,958,826	825	9,959,651
Employee deferred compensation *(note 5)*	907,605	907,605	1,815,210	516,200	516,200	1,032,400
Refundable to customers	--	11,843,605	11,843,605	--	2,506,377	2,506,377
Total adjustments	7,327,021	27,216,041	34,543,062	17,360,159	9,100,627	26,460,786
Net cash provided by (used in) operating activities	(653,363)	53,005,678	52,352,315	6,016,566	46,103,762	52,120,328
Cash flows from noncapital financing activities - other nonoperating income	389,690	653,587	1,043,277	4,305,699	456,152	4,761,851
Cash flows from investing activities:						
Interest received	998,701	5,760,972	6,759,673	1,374,376	2,726,346	4,100,722
(Purchases) sales of investments, net	16,610,628	(17,219,636)	(609,008)	(8,440,414)	(53,723,266)	(62,163,680)
Net cash provided by (used in) investing activities	17,609,329	(11,458,664)	6,150,665	(7,066,038)	(50,996,920)	(58,062,958)

Continued

Combined Statements of Cash Flows, Continued

December 31, 1995 and 1994

	1995			1994		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Cash flows from capital financing activities:						
Proceeds from issuance of long-term debt *(note 6)*	$ --	--	--	--	59,566,904	59,566,904
Principal payments of long-term debt *(note 5)*	(294,329)	(10,778,928)	(11,073,257)	(904,678)	(10,214,561)	(11,119,239)
Interest paid on long-term debt, excluding interest capitalized of $1,417,600 in 1995 and $2,083,100 in 1994	(67,265)	(10,106,115)	(10,173,380)	(40,270)	(9,572,799)	(9,613,069)
Capital expenditures	(18,954,305)	(29,428,070)	(48,382,375)	(15,233,445)	(28,288,397)	(43,521,842)
Proceeds from sale of property	11,029	11,029	22,058	21,793	21,793	43,586
Increase (decrease) in advances and deposits	(47,442)	23,828	(23,614)	(309,110)	(31,378)	(340,488)
Additions to contributions in aid of construction	7,014,193	4,502,338	11,516,531	8,555,494	3,633,246	12,188,740
Net cash provided by (used in) capital financing activities	(12,338,119)	(45,775,918)	(58,114,037)	(7,910,216)	15,114,808	7,204,592
Net increase (decrease) in cash and cash equivalents	5,007,537	(3,575,317)	1,432,220	(4,653,989)	10,677,802	6,023,813
Cash and cash equivalents at beginning of year	9,508,417	21,542,044	31,050,461	14,162,406	10,864,242	25,026,648
Cash and cash equivalents at end of year	$ 14,515,954	17,966,727	32,482,681	9,508,417	21,542,044	31,050,461
Cash and cash equivalents	$ 14,515,954	17,966,727	32,482,681	9,508,417	21,542,044	31,050,461
Investments	15,853,657	89,854,924	105,708,581	31,531,398	71,436,782	102,968,180
Total cash and investments	$ 30,369,611	107,821,651	138,191,262	41,039,815	92,978,826	134,018,641
Schedule of noncash investing and financing activities:						
Capital expenditures	$ (932,631)	(1,196,799)	(2,129,430)	--	--	--
Issuance of capital leases	932,631	1,196,799	2,129,430	--	--	--
Issuance of long-term debt	--	--	--	--	1,046,806	1,046,806
Additions to deferred charges - issuance costs	--	--	--	--	(1,046,806)	(1,046,806)
Interest expense	--	(586,616)	(586,616)	--	(558,200)	(558,200)
Accretion on capital appreciation certificates of 1990 Certificates of Participation	--	483,395	483,395	--	451,111	451,111
Amortization of original issue discount (premium):						
1990 Certificates of Participation	--	71,272	71,272	--	71,272	71,272
1991 Certificates of Participation	--	14,546	14,546	--	14,646	14,646
1993 Certificates of Participation	--	30,267	30,267	--	30,267	30,267
1994 Certificates of Participation	--	(12,864)	(12,864)	--	(9,096)	(9,096)

See accompanying notes to combined financial statements.

Combined Statements of Income

Years ended December 31, 1995 and 1994

	1995			1994		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Operating revenues:						
Power sales	$ --	178,382,722	178,382,722	--	190,213,525	190,213,525
Water sales	33,659,990	--	33,659,990	31,995,403	--	31,995,403
Water availability charge	1,981,882	--	1,981,882	1,957,545	--	1,957,545
Interdepartmental charges *(note 11)*:						
Use of All-American Canal	3,740,000	(3,740,000)	--	3,229,000	(3,229,000)	--
Power sales	(539,801)	539,801	--	(579,538)	579,538	--
Heber-Mirage transmission credits *(note 12)*	--	8,886,633	8,886,633	--	8,966,453	8,966,453
Other	--	1,907,599	1,907,599	--	1,831,025	1,831,025
	38,842,071	185,976,755	224,818,826	36,602,410	198,361,541	234,963,951
Operating expenses:						
Cost of fuel	--	9,877,203	9,877,203	--	12,153,314	12,153,314
Purchased power	--	87,583,679	87,583,679	--	94,262,777	94,262,777
Other power expenses	--	23,489,762	23,489,762	--	20,289,142	20,289,142
Operation and maintenance of All-American Canal	1,842,700	--	1,842,700	1,507,932	--	1,507,932
Operation and maintenance of irrigation system and dams	18,402,255	--	18,402,255	18,467,402	--	18,467,402
General and administration expense	21,078,466	18,973,035	40,051,501	22,945,014	16,705,549	39,650,563
Provision for depreciation *(note 3)*	5,499,034	20,263,439	25,762,473	5,025,655	17,947,624	22,973,279
	46,822,455	160,187,118	207,009,573	47,946,003	161,358,406	209,304,409
Net operating income (loss)	(7,980,384)	25,789,637	17,809,253	(11,343,593)	37,003,135	25,659,542
Nonoperating revenues (expenses):						
Interest income	804,084	5,197,904	6,001,988	1,704,632	4,170,760	5,875,392
Interest expense	(67,823)	(10,539,174)	(10,606,997)	(38,540)	(10,285,262)	(10,323,802)
Other income	390,523	663,009	1,053,532	4,306,545	458,989	4,765,534
Other expenses	(833)	(9,422)	(10,255)	(845)	(2,837)	(3,682)
	1,125,951	(4,687,683)	(3,561,732)	5,971,792	(5,658,350)	313,442
Net income (loss)	$ (6,854,433)	21,101,954	14,247,521	(5,371,801)	31,344,785	25,972,984

See accompanying notes to combined financial statements.

Combined Statements of Changes in District Equity
Years ended December 31, 1995 and 1994

	Water Department	Power Department	Combined
Retained earnings:			
Balance at January 1, 1995	$ 132,924,364	367,957,329	500,881,693
Net income (loss)	(6,854,433)	21,101,954	14,247,521
Add back depreciation of fixed assets acquired through contributions *(note 3)*	3,395,004	1,468,155	4,863,159
Balance at December 31, 1995	129,464,935	390,527,438	519,992,373
Contributions in aid of construction:			
Balance at January 1, 1995	92,223,021	39,889,212	132,112,233
Contributions received	7,014,193	4,502,338	11,516,531
Heber-Mirage transmission credits *(note 12)*	--	(8,886,633)	(8,886,633)
Less depreciation of fixed assets acquired through contributions *(note 3)*	(3,395,004)	(1,468,155)	(4,863,159)
Balance at December 31, 1995	95,842,210	34,036,762	129,878,972
Total District equity at December 31, 1995	$ 225,307,145	424,564,200	649,871,345
Retained earnings:			
Balance at January 1, 1994	$ 135,107,638	335,012,860	470,120,498
Net income (loss)	(5,371,801)	31,344,785	25,972,984
Add back depreciation of fixed assets acquired through contributions *(note 3)*	3,188,527	1,599,684	4,788,211
Balance at December 31, 1994	132,924,364	367,957,329	500,881,693
Contributions in aid of construction:			
Balance at January 1, 1994	86,856,054	46,822,103	133,678,157
Contributions received	8,555,494	3,633,246	12,188,740
Heber-Mirage transmission credits *(note 12)*	--	(8,966,453)	(8,966,453)
Less depreciation of fixed assets acquired through contributions *(note 3)*	(3,188,527)	(1,599,684)	(4,788,211)
Balance at December 31, 1994	92,223,021	39,889,212	132,112,233
Total District equity at December 31, 1994	$ 225,147,385	407,846,541	632,993,926

See accompanying notes to combined financial statements.

Notes To Combined Financial Statements, Continued

The District's investment policies allow for investments in obligations of U.S. Treasury and other Federal agency securities, State Treasury and other state and local governmental agency securities, bankers' acceptances, commercial paper, mortgage securities, medium-term corporate notes and the State Treasurer's Local Agency Investment Fund, as well as certain investments commonly referred to as "derivatives."

Included in the District's investments at December 31, 1995 and 1994 are derivatives. Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate or index. The derivative investments held by the District during 1995 and 1994 consisted of "inverse-floaters," which were originally purchased to improve the District's overall rate of return on its investments. These derivative investments consist of Federal Home Loan Mortgage Corp., Federal Farm Credit Bank and Federal Home Loan Bank Notes and are included in U. S. Government agency securities.

The District's inverse floaters, which are financial instruments whose interest rates vary inversely with a particular published index or rate, consisted of two types of inverse floaters: single and dual indexed. The single indexed floaters totaled $19,242,294 and $28,659,996 at December 31, 1995 and 1994, respectively, and vary indirectly with a multiple of either the one- or six-month London Inter-Bank Offering Rate (LIBOR) which reset monthly or semiannually, respectively. The dual indexed floaters, which also vary directly with another index, totaled $2,000,000 and $3,934,000 at December 31, 1995 and 1994, respectively. Because of the nature of these inverse floaters, as general interest rate levels increase, the pay rate on the investments decrease, resulting in a decline in interest income as well as a decline in market value. The weighted average interest rate on the inverse floaters was 2.14% and 4.66%, and the unrealized loss was $1,473,881 and $4,442,280 (88.0% and 57.7% of total portfolio unrealized losses) at December 31, 1995 and 1994, respectively.

The District's investments at December 31, 1995 and 1994 are categorized by the level of custodial risk assumed by the District. The risk categories are defined as follows:

Category 1: includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

Category 2: includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.

Category 3: includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District's name.

Not Required to be Categorized: investments in pools managed by other governments or investment services in which the District owns a share of the total pool, but does not own specific underlying investments within such pool. This includes investments in the State Treasurer's Local Agency Investment Fund (LAIF) and mutual funds. The District does not have detail of the portfolios of LAIF or the mutual funds at December 31, 1995 and 1994.

The District's investments at December 31, 1995 and 1994 are categorized by level of custodial risk in the following table:

	1995		1994	
	Carrying amount	Market value/ contractual amount	Carrying amount	Market value/ contractual amount
Risk category 1:				
U.S. Government securities	$ 8,212,727	8,239,514	3,330,981	3,288,312
U.S. Government agency securities	32,381,758	31,294,583	42,687,138	37,662,169
Medium-term corporate notes	19,497,648	19,472,937	8,559,350	8,077,902
Negotiable certificates of deposit	100,000	100,000	100,000	100,000
Total risk category 1	60,192,133	59,107,034	54,677,469	49,128,383
Risk category 2:				
U.S. Government agency securities	39,136,787	38,917,130	37,679,444	36,700,613
Medium-term corporate notes	3,026,670	3,101,340	6,978,100	6,848,450
Total risk category 2	42,163,457	42,018,470	44,657,544	43,549,063
Risk category 3:				
U.S. Government agency securities	3,339,969	3,300,797	3,626,054	2,966,496
Negotiable certificates of deposit	13,022	13,022	7,112	7,112
Total risk category 3	3,352,991	3,313,819	3,633,166	2,973,608
Investments not required to be categorized:				
State Treasurer's Local Agency Investment Fund	8,400,000	8,400,000	5,500,000	5,500,000
Mutual fund investments	4,364,708	3,958,591	6,785,445	6,400,343
Employee deferred compensation plan (held in mutual funds)	15,674,212	15,674,212	13,859,002	13,859,002
Total investments not required to be categorized	28,438,920	28,032,803	26,144,447	25,759,345
Net unrealized loss on investments	--	1,675,375	--	7,702,227
Total investments	134,147,501	$ 134,147,501	129,112,626	129,112,626
Cash deposits	4,043,761		4,906,014	
Net cash and investments	$ 138,191,262		134,018,640	

(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 District has the powers under the law to, among other things, provide irrigation and electric service within its geographic boundaries. In connection therewith, the District has the powers of eminent domain to contract, to construct works, to fix rates and charges for commodities or services furnished and to incur indebtedness.

The District is governed by a five-member Board of Directors elected by the citizens residing within the District's boundaries.

Basis of Presentation

The account classification structures used by the District conform to generally accepted accounting principles consistent with enterprise fund accounting. The accounting records of the District are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid. The effects of interdepartmental transactions have not been eliminated at the individual department level, as the Board of Directors of the District believes that the operating results of such departments should remain separate to facilitate management review and appropriate rate setting. Such separation is also required for evidence of compliance with debt agreements relating to the District's outstanding Certificates of Participation.

Separate accounting records are maintained for the Water and Power Departments of the District. The account classifications used by the District for accounting and financial reporting purposes are comparable to those used by other irrigation districts and electric utilities. The account classifications used by the Power Department are specified by the Uniform System of Accounts as prescribed by the U. S. Federal Energy Regulatory Commission. The account classifications of the Water Department were adopted to facilitate computations required under a provision of the All-American Canal contract *(see note 7)*.

In accordance with Government Accounting Standards Board (GASB) Statement No. 20, the District applies all applicable GASB pronouncements as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements contradict GASB pronouncements.

Utility Plant

Utility plant is stated at cost and includes labor, materials, interest capitalized during the construction period, purchased services and certain overhead items. Water and electric plant retirements are removed from the accounts at cost, together with the related accumulated depreciation. Any gains or losses resulting from retirements are recorded as nonoperating revenues or expenses.

The District has an undivided interest in certain power generation stations and transmission systems that are jointly owned with several utilities. The operating agreement under which the facilities were constructed required that each participant provide its own construction financing. The District's proportionate share of construction and improvement costs for such jointly owned facilities is included in the appropriate category of utility plant. The District incurs certain minimum operating costs on jointly owned facilities, whether or not it is able to take delivery of its proportionate share of energy generated *(see note 12)*. Such expenses incurred are included in the accompanying combined statements of income.

Depreciation

Buildings, vehicles, equipment, drainage structures, canal linings and canal structures owned by the Water Department and Power Department are depreciated on a straight-line basis over their estimated useful lives. Expenditures which materially increase utility plant lives are capitalized, while costs of maintenance and repairs are charged to expense as incurred. Depreciation on fixed assets acquired through contributions in aid of construction is deducted from such contributions with a corresponding increase to retained earnings.

Inventories

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

Revenues

The principal customers of the Water Department are farm operators and cities, which in turn resell such water to their customers. The Water Department's customers are billed at the end of each month for sales made during the month. In addition, each landowner pays an annual water availability fee that is based upon acreage held within the District. Customers of the Power Department are billed on a cyclical basis. Water and power revenues are recorded when billed, except for the water availability fee which is billed in December but recorded as revenue ratably throughout the year; accordingly, such billings are considered to be deferred revenues. Unbilled water and electric service revenues are not considered significant.

Refundable to Customers

Fuel costs billed to power customers in excess of actual fuel costs incurred are considered refundable to the customer. Such costs are refunded through subsequent reductions of fuel costs billed.

Restricted Assets

Restricted funds represent allocations of cash balances pursuant to provisions of the All-American Canal contract, the covenants of the Certificates of Participation, deposits of employee-deferred compensation and for other purposes specified by the Board of Directors.

Cash and Investments

The District invests its idle cash on a daily basis. Other investments consist primarily of Federally backed securities, bank certificates of deposit, medium-term corporate notes, mutual fund investments and other investments commonly referred to as "derivatives." The District also has an employee deferred compensation plan under which investments of varying types are made on behalf of the participants.

Such investments are stated at amortized cost, except for the deferred compensation plan assets, which are stated at market value.

The District considers all cash and cash deposits, investments in the State Treasurer's Local Agency Investment Fund, investments in mutual and similar funds and other investments with initial maturities of less than 90 days to be cash and cash equivalents for purposes of the accompanying combined statements of cash flows.

Reclassifications

Certain amounts reported in the 1994 combined financial statements have been reclassified to correspond to the 1995 presentation.

(2) Cash and Investments

The District maintains a general cash and investment pool for the purpose of maximizing investment returns for all funds except those required to be held by outside fiscal agents and funds in its employee deferred compensation plan. The District's cash and investments portfolio had aggregate net unrealized losses of $1,675,375 and $7,702,227 at December 31, 1995 and 1994, respectively.

The District believes it has the ability and intent to hold such securities until their respective maturity dates, thus reducing the risk that such unrealized losses will become realized at some future date.

The District's cash deposits at December 31, 1995 and 1994 were either entirely insured by appropriate Federal depository insurance or collateralized with collateral held by the pledging financial institution's trust department or agent in the District's name in accordance with provisions of the California Government Code. The carrying amount and bank balance of the District's deposits at December 31, 1995 and 1994 are as follows:

	1995	
	Carrying amount	Bank balance
Insured	$ 326,746	254,932
Collateralized	3,717,015	5,409,060
Total cash deposits	$ 4,043,761	5,663,992

	1994	
	Carrying amount	Bank balance
Insured	$ 252,059	519,198
Collateralized	4,653,955	6,607,274
Total cash deposits	$ 4,906,014	7,126,472

Notes To Combined Financial Statements, Continued

(3) Utility Plant

Utility plant is comprised of the following at December 31, 1995 and 1994:

	1995			1994		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Land and land rights	$ 8,149,743	7,269,051	15,418,794	8,113,619	5,864,194	13,977,813
Structures and improvements	6,453,187	70,266,855	76,720,042	6,238,371	66,845,736	73,084,107
Canals	159,056,979	--	159,056,979	147,899,862	--	147,899,862
Drainage	41,005,992	--	41,005,992	35,268,940	--	35,268,940
All-American Canal	23,863,478	--	23,863,478	23,863,478	--	23,863,478
Conservation equipment	961,285	--	961,285	961,833	--	961,833
Dredges and field equipment	6,589,978	1,695,118	8,285,096	6,956,880	1,540,369	8,497,249
Automobiles and trucks	8,496,588	10,905,674	19,402,262	8,140,587	10,573,510	18,714,097
Other plant equipment	22,277,387	29,800,626	52,078,013	20,877,607	28,378,009	49,255,616
Steam plant equipment	--	104,316,243	104,316,243	--	107,502,435	107,502,435
Hydroelectric generating equipment	--	21,775,297	21,775,297	--	21,569,333	21,569,333
Gas turbines	--	23,968,044	23,968,044	--	23,952,880	23,952,880
Transmission plant	--	198,082,849	198,082,849	--	193,871,633	193,871,633
Distribution plant	--	239,953,100	239,953,100	--	223,200,229	223,200,229
Reservoirs and dams	5,021,810	3,644,671	8,666,481	4,977,445	3,621,022	8,598,467
Plant in service	281,876,427	711,677,528	993,553,955	263,298,622	686,919,350	950,217,972
Less accumulated depreciation:						
Balance at beginning of year	52,307,976	196,165,513	248,473,489	47,764,897	179,136,318	226,901,215
Add:						
Depreciation of fixed assets not acquired through contributions	2,926,964	19,603,535	22,530,499	2,916,362	17,456,445	20,372,807
Depreciation of fixed assets acquired through contributions	3,395,004	1,468,155	4,863,159	3,188,527	1,599,684	4,788,211
Less retirements, net	(291,093)	(4,110,627)	(4,401,720)	(1,561,810)	(2,026,934)	(3,588,744)
Balance at end of year	58,338,851	213,126,576	271,465,427	52,307,976	196,165,513	248,473,489
	223,537,576	498,550,952	722,088,528	210,990,646	490,753,837	701,744,483
Construction in process	610,850	1,896,263	2,507,113	518,432	1,611,911	2,130,343
Net book value of utility plant assets	$ 224,148,426	500,447,215	724,595,641	211,509,078	492,365,748	703,874,826

Depreciation and amortization expense for the years ended December 31, 1995 and 1994 are allocated as follows:

	1995			1994		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Included in operation and maintenance expenses	$ 822,934	808,251	1,631,185	1,079,234	1,108,505	2,187,739
Provision for depreciation	5,499,034	20,263,439	25,762,473	5,025,655	17,947,624	22,973,279
Total depreciation	6,321,968	21,071,690	27,393,658	6,104,889	19,056,129	25,161,018
Amortization of contributions	(3,395,004)	(1,468,155)	(4,863,159)	(3,188,527)	(1,599,684)	(4,788,211)
Net reduction of retained earnings from depreciation	$ 2,926,964	19,603,535	22,530,499	2,916,362	17,456,445	20,372,807

(4) Deferred Compensation Plan

The District offers a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457 to its employees, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the District except for a catastrophic circumstance creating an undue financial hardship for the employee.

Investments made under the Deferred Compensation Plan are stated at market value, and all gains and losses realized on such investments accrue directly to the benefit or detriment of the participants. At December 31, 1995 and 1994, net assets available for benefits amounted to $15,674,212 and $13,859,002, respectively.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are, until paid or made available to the employee or other beneficiary, solely the property and rights of the District, without being restricted to the provisions of benefits under the plan, subject only to the claims of the District's general creditors. Participant's rights under the plan are equal to those general creditors of the District in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the District's legal counsel that the District has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The District believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

(5) Long-Term Debt

Long-term debt consists of the following at December 31, 1995 and 1994:

1995	Water Department Current portion	Water Department Long-term portion	Power Department Current portion	Power Department Long-term portion	Total
Certificates of Participation - 1990, net of unamortized original issue discount of $1,019,181 and cumulative accretion of $2,308,552 on capital appreciation certificates *(note 6)*	$ --	--	4,335,000	40,259,369	44,594,369
Certificates of Participation - 1991, net of unamortized original issue discount of $33,456 *(note 6)*	--	--	6,350,000	13,741,544	20,091,544
Certificates of Participation - 1993, net of unamortized original issue discount of $417,685 *(note 6)*	--	--	395,000	42,722,315	43,117,315
Certificates of Participation - 1994, net of unamortized original issue premium of $296,415 *(note 6)*	--	--	100,000	59,801,415	59,901,415
Water bonds payable *(note 8)*	70,547	1,809,997	--	--	1,880,544
Obligation under capital lease *(note 9)*	295,144	835,435	383,918	1,125,607	2,640,104
	$ 365,691	2,645,432	11,563,918	157,650,250	172,225,291

1994	Water Department Current portion	Water Department Long-term portion	Power Department Current portion	Power Department Long-term portion	Total
Certificates of Participation - 1990, net of unamortized original issue discount of $1,090,454 and cumulative accretion of $1,825,157 on capital appreciation certificates *(note 6)*	$ --	--	4,070,000	44,039,703	48,109,703
Certificates of Participation - 1991, net of unamortized original issue discount of $48,002 *(note 6)*	--	--	6,030,000	20,076,998	26,106,998
Certificates of Participation - 1993, net of unamortized original issue discount of $447,952 *(note 6)*	--	--	385,000	43,087,048	43,472,048
Certificates of Participation - 1994, net of unamortized original issue premium of $309,279 *(note 6)*	--	--	100,000	59,914,279	60,014,279
Water bonds payable *(note 8)*	67,800	1,880,544	--	--	1,948,344
Obligation under capital lease *(note 9)*	171,980	252,242	130,130	374,816	929,168
	$ 239,780	2,132,786	10,715,130	167,492,844	180,580,540

(6) Certificates of Participation

1990 Issue

In April 1990, the District issued $103,815,000 of 1990 Certificates of Participation (1990 COPs) to finance the retrofitting of a generating unit at the District's El Centro Steam Plant, the purchase of an existing steam-electric generating unit and combustion turbine-electric generating unit, the construction of an office facility and additions and improvements to the District's transmission and distribution facilities, including normal additions and extensions.

1990 COPs in the form of current interest certificates mature from 1990 through 2009, inclusive, with interest of 5.8% to 7.8% payable semiannually. 1990 COPs in the form of capital appreciation certificates mature from 2000 through 2004, for which interest compounds semiannually but is not paid until maturity or earlier redemption. These certificates were recorded net of original issue discount of $2,482,399.

The 1990 COPs' terms of the obligation indenture require maintenance of certain financial ratios with which the District has complied for 1995 and 1994.

On August 26, 1993, the District issued $44,295,000 of 1993 Refunding Certificates of Participation (1990 Electric System Project) (1993 COPs) to partially defease $39,380,000 of outstanding 1990 COPs (those serial current interest 1990 COPs maturing November 1, 2001 and 2003, and those term current interest 1990 COPs maturing November 1, 2005 and 2009). These 1990 COPs are considered to be defeased and the liability for those COPs has been removed from the District's combined balance sheet (see 1993 Issue elsewhere in this note). The balance outstanding of 1990 COPs considered defeased was $39,380,000 at December 31, 1995 and 1994.

The outstanding balance of 1990 COPs was $44,594,369 and $48,109,703, net of the unamortized original issue discount of $1,019,181 and $1,090,454 and cumulative accretion on capital appreciation certificates of $2,308,552 and $1,825,157 at December 31, 1995 and 1994, respectively.

A summary of debt service for the District's outstanding 1990 COPs is as follows (accretion on capital appreciation certificates is included in interest in year paid):

Due date	Principal amount	Interest	Total debt service
November 1, 1996	$ 4,335,000	2,572,643	6,907,643
November 1, 1997	4,615,000	2,290,868	6,905,868
November 1, 1998	4,920,000	1,986,278	6,906,278
November 1, 1999	5,245,000	1,656,638	6,901,638
November 1, 2000	4,730,379	2,171,797	6,902,176
Thereafter	19,459,619	12,430,576	31,890,195
	$ 43,304,998	23,108,800	66,413,798

1991 Issue

In December 1991, the District issued $32,925,000 of 1991 Refunding Certificates of Participation (1983 Electric System Project) (1991 COPs) at an average interest rate of 5% to advance refund $30,010,000 of outstanding 1983 COPs maturing on or after May 1, 1994. These 1983 COPs maturing on or after May 1, 1994 are considered to be defeased and the liability for those COPs has been removed from the District's combined balance sheet. The balance of 1983 COPs considered defeased was repaid in 1993.

The 1991 COPs are payable annually on May 1 in amounts from $630,000 to $7,070,000. Interest is payable semiannually on November 1 and May 1 at rates ranging from 4.3% to 5.75%.

The 1991 COPs' terms of the obligation indenture require maintenance of certain financial ratios with which the District has complied for 1995 and 1994.

The outstanding balance of 1991 COPs was $20,091,544 and $26,106,998, net of unamortized original issue discount of $33,456 and $48,002, at December 31, 1995 and 1994, respectively.

Notes To Combined Financial Statements, Continued

A summary of debt service for the District's outstanding 1991 COPs is as follows:

Due date	Principal amount	Interest	Total debt service
May 1, 1996	$ 6,350,000	958,306	7,308,306
May 1, 1997	6,705,000	595,103	7,300,103
May 1, 1998	7,070,000	203,263	7,273,263
	$ 20,125,000	1,756,672	21,881,672

1993 Issue

On August 26, 1993, the District issued $44,295,000 of 1993 Refunding Certificates of Participation (1990 Electric System Project) (1993 COPs) at an average interest rate of 4.9% to advance refund $39,380,000 of outstanding 1990 COPs which mature on November 1, 2001, 2003, 2005 and 2009 with an average interest rate of 6.8%. The net proceeds of $43,220,366 (after payment of $1,074,634 in underwriting fees and other issuance costs) plus an additional $1,197,061 of 1990 COPs reserve and other fund monies were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 COPs being defeased. As a result, the 1990 COPs maturing on November 1, 2001, 2003, 2005 and 2009 are considered to be defeased and the liability for those COPs has been removed from the District's combined balance sheet.

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

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

The 1993 COPs' terms of the obligation indenture require maintenance of certain financial ratios with which the District has complied for 1995 and 1994.

The outstanding balance of 1993 COPs was $43,117,315 and $43,472,048, net of unamortized original issue discount of $417,685 and $447,952, at December 31, 1995 and 1994, respectively.

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

Due date	Principal amount	Interest	Total debt service
November 1, 1996	$ 395,000	2,135,698	2,530,698
November 1, 1997	410,000	2,121,478	2,531,478
November 1, 1998	425,000	2,105,488	2,530,488
November 1, 1999	445,000	2,088,275	2,533,275
November 1, 2000	460,000	2,069,585	2,529,585
Thereafter	41,400,000	11,655,540	53,055,540
	$ 43,535,000	22,176,064	65,711,064

1994 Issue

On April 19, 1994, the District issued $59,805,000 of Certificates of Participation (1994 Electric System Project) (1994 COPs) to provide funds to finance a portion of the costs of the 1994 Electric System Project, consisting of major additions and improvements to the District's electric system.

The 1994 COPs consist of $500,000 serial certificates at rates ranging from 3.00% to 4.50% maturing on November 1, 1994 through 1998 and $59,305,000 term certificates maturing on November 1, 2004, 2011, 2015 and 2018 at 6.00%, 6.75%, 6.00% and 6.00%, respectively. The term certificates are subject to mandatory prepayment prior to their respective maturity dates, in part by lot beginning November 1, 1999, 2005, 2012 and 2016, respectively. The certificates maturing on and after November 1, 2005 are subject to prepayment prior to their respective maturity dates at the option of the District as a whole or in part on any date on or after November 1, 2004. Any prepayments on November 1, 2004 through October 31, 2005 are subject to a prepayment premium of 2%; November 1, 2005 through October 31, 2006, 1%, and no prepayment premium thereafter.

The 1994 COPs were issued with an original issue premium of $318,375 and costs of issuance of $1,046,806, which are amortized to interest expense over the life of the 1994 COPs. The outstanding balance of 1994 COPs was $59,901,415 and $60,014,403 at December 31, 1995 and 1994, respectively, including unamortized original issue premium of $296,415 and $309,396, respectively.

The terms of the 1994 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for 1995 and 1994.

A summary of debt service for the District's outstanding 1994 COPs is as follows:

Due date	Principal amount	Interest	Total debt service
November 1, 1996	$ 100,000	3,665,400	3,765,400
November 1, 1997	100,000	3,661,400	3,761,400
November 1, 1998	100,000	3,657,000	3,757,000
November 1, 1999	430,000	3,652,500	4,082,500
November 1, 2000	450,000	3,626,700	4,076,700
Thereafter	58,425,000	48,617,888	107,042,888
	$ 59,605,000	66,880,888	126,485,888

(7) All-American Canal Contract

Pursuant to the terms of the Boulder Canyon Project, the All-American Canal contract dated December 1, 1932 and the amendment and supplement to that contract dated March 4, 1952, the District assumed an initial obligation of $25,020,000 to the Federal Government. This amount represents the District's share of the All-American Canal system construction costs. This obligation has been allocated to the Water and Power Departments based on the relative cost of each department's respective utility plant located on the All-American Canal system. Except for the final combined payments of $613,075 made in 1994, no other amounts are due to the Federal Government for water supplied to the District.

The District receives its entire water supply for its irrigation system from the Federal Government under this contract. Deliveries of water and use of the All-American Canal are guaranteed, in perpetuity, to the District as long as the provisions of the contract are met.

Under the All-American Canal contract and certain other agreements, the District has the right to avail itself of hydroelectric generation from the water flow through the Canal, subject to the sharing of certain derived revenues with another water district. The most significant of such sharing arrangements is with the Coachella Valley County Water District (Coachella). In 1934, Coachella leased its power rights on the Canal to the District for a period of 99 years. Expenses under this agreement are paid to the Federal Government for the credit of Coachella and are regarded as payments made under the District's normal obligation under the All-American Canal contract.

Notes To Combined Financial Statements, Continued

(8) Bonds Payable

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

In 1990, the State of California loaned the District an additional $680,000 to pay for eligible project costs, therefore increasing the total obligation to $2,280,000. The unpaid balance at December 31, 1995 and 1994 was $1,880,544 and $1,948,343, respectively.

The debt service on such obligation is as follows:

	Principal	Interest	Total debt service
1996	$ 70,548	74,763	145,311
1997	73,407	71,904	145,311
1998	76,382	68,929	145,311
1999	79,478	65,833	145,311
2000	82,699	62,612	145,311
Thereafter	1,498,030	442,243	1,940,273
	$ 1,880,544	786,284	2,666,828

(9) Capital Leases

The District has acquired certain operating and computer equipment through lease purchase agreements. The District also acquired real property in El Centro through a lease purchase agreement extending over a ten-year period.

A summary of the lease payments is as follows:

	Operating equipment	Computer equipment	Real property	Total
1996	$ 602,154	168,067	53,416	823,637
1997	600,921	166,097	53,416	820,434
1998	551,824	141,588	53,416	746,828
1999	430,160	295	53,416	483,871
2000	85,390	--	4,451	89,841
	2,270,449	476,047	218,115	2,964,611
Less interest portion	(256,177)	(37,594)	(30,736)	(324,507)
Net	$ 2,014,272	438,453	187,379	2,640,104

(10) Employee Benefit Plan

The District has a defined benefit pension plan (the Plan) covering substantially all of its employees. Under the terms of the Plan, employees are eligible to participate after completing six months of continuous service. Employees become vested in the Plan after four years of continuous service and after attaining the age of 40.

The District's contribution to the Plan is determined by the aggregate-entry-age-normal-cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. Contributions made by the District and retirement benefits vary depending upon the age of the employee at the date of entry into the Plan, the average basic salary attained and the employee's retirement age.

The District's contributions to the Plan were as follows:

	December 31 1995	December 31 1994
Normal cost	$ 2,200,502	2,080,623
Unfunded actuarial accrued liability	1,554,995	1,604,022
Total contributions	$ 3,755,497	3,684,645

Retirement benefits are payable beginning at age 65 based on 75% of the employee's highest basic monthly salary times the ratio of completed months of credited service. Vested employees may retire at or after age 55 and receive reduced retirement benefits provided 10 years of continuous service has been achieved. Benefits are payable based on the actuarial equivalent of accrued benefits. The Plan also includes death and disability benefits.

A summary of the financial position of the Plan at January 1, 1995 and 1994, the most recent actuarial data available, is as follows:

	January 1 1995	January 1 1994
Pension benefit obligation:		
Inactive employees:		
Retirees	$ 65,551	65,024
Vested terminated	48,146	--
	113,697	65,024
Active employees:		
Accumulated employee contributions	4,427,509	4,507,024
Employer-paid vested benefits	22,710,827	19,124,813
Employer-paid nonvested benefits	2,103,799	2,966,333
	29,242,135	26,598,170
Total pension benefit obligation	29,355,832	26,663,194
Net assets available for benefits	30,404,679	26,738,997
Net assets in excess of pension benefit obligation	$ 1,048,847	75,803

The term "pension benefit obligation" reflects the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. Significant assumptions used to determine the pension benefit obligation and the actuarial accrued liability include:

- A rate of return on the investment of present and future assets of 7.5%
- Salary increases of 6% per year compounded annually
- Loading for expenses: 2% of gross cost
- Retirement age of 65

Notes To Combined Financial Statements, Continued

Certain historical trend information is summarized as follows:

	December 31 1995	December 31 1994
Total payroll	$ 50,923,452	49,380,314
Covered payroll	$ 47,046,072	44,151,673
District contributions as a percentage of annual covered payroll	7.98%	8.35%

Additional trend information is as follows (information not available prior to 1989):

	December 31 1995	1994	1993	1992	1991	1990	1989
Net assets available for benefits	$ 30,404,679	26,738,997	31,845,448	29,711,272	26,670,346	25,605,788	23,501,467
Pension benefit obligation	29,355,832	26,663,194	25,411,936	23,796,289	22,088,928	20,603,450	16,359,777
Percent funded	103.57%	100.28%	125.32%	124.86%	120.74%	124.28%	143.65%
Assets in excess of pension benefit obligation	$ 1,048,847	75,803	6,433,512	5,914,983	4,581,418	5,002,338	7,141,690
Annual covered payroll	47,046,072	44,151,673	44,157,842	41,459,746	38,098,392	33,682,560	29,945,040
Assets in excess of pension benefit obligation as a percent of covered payroll	2.23%	.17%	14.57%	14.27%	12.03%	14.85%	23.85%
Total District contributions	$ 3,755,497	3,684,645	3,331,698	3,133,898	2,365,294	2,030,677	1,696,000
District contributions as a percent of annual covered payroll	7.98%	8.35%	7.55%	7.56%	6.20%	6.02%	5.66%

Amounts charged to operations were $3,755,497 and $3,684,645 for 1995 and 1994, respectively.

(11) Interdepartmental Transactions

Although the Water and Power Departments of the District maintain separate accounting records, there are certain interdepartmental transactions. Significant transactions primarily involve charges by the Water Department to the Power Department for the use of water to generate electricity on the canal system and for the use of buildings, vehicles and equipment.

The interdepartmental charge for use of water in the All-American Canal to generate electricity is based upon amounts authorized by the Board of Directors in 1976 and 1988.

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, with the majority of the expenses allocated 50% to the Power Department and 50% to the Water Department.

(12) Commitments and Contingencies

Litigation

In the ordinary course of operations, the District is the subject of claims and litigation from outside parties. After consultation with legal counsel, the District believes that adequate provision has been made for the costs, if any, of the ultimate outcome of the legal proceedings, such that these matters will not materially affect the District's combined financial condition.

Self-insurance

The District is self-insured for workers' compensation claims and employee medical care benefits. At December 31, 1995 and 1994, the District accrued $2,852,000 and $2,852,000, respectively, for estimated claims to be paid in the future. In addition, the District is partially self-insured for general claims and carries excess insurance coverage for general liability matters. At December 31, 1995 and 1994, the District's management accrued $13,815,000 and $15,315,000, respectively, for estimated claims. Such amounts have been included in other accrued expenses in the accompanying combined balance sheets for 1995 and 1994, respectively.

Take or Pay Contracts

The District has two energy and capacity contracts with Southern California Public Power Authority (SCPPA), a joint powers authority organized under the laws of the state of California. Under the first contract, the District purchases 6.5% of the energy generated by SCPPA's 5.91% ownership in the Palo Verde Nuclear Project (the Palo Verde Project), a nuclear-fueled generating station. Under the second contract, the District purchases 50.98% of the capacity and energy generated by SCPPA's 41.8% ownership of the San Juan Unit 3 Project (the San Juan Project). The terms of the contracts require that the District make certain minimum payments, whether or not the District receives power, based upon the debt service requirements of the projects. The District's estimates of such minimum payments are:

	Palo Verde Project	San Juan Project	Total SCPPA take or pay commitment
1996	$ 5,093,000	7,650,000	12,743,000
1997	5,868,000	9,188,000	15,056,000
1998	5,869,000	9,188,000	15,057,000
1999	5,869,000	9,188,000	15,057,000
2000	5,869,000	9,187,000	15,056,000
Thereafter	95,545,000	165,366,000	260,911,000
	$ 124,113,000	209,767,000	333,880,000

The District makes monthly payments to SCPPA for its portion of costs, which includes charges for decommissioning the nuclear power plant and acquisition, operation and maintenance of the electric generating plant. Such charges are recorded by the District as cost of fuel in the accompanying combined statements of income.

Energy Supply Purchase Commitment

The District has an energy supply contract with El Paso Electric Company. The agreement terminates April 30, 2002. The purchase commitment is all energy supplied under the contract up to 150 megawatts. All energy over 150 megawatts is to be charged at a fixed rate. The District's estimated yearly purchase commitment under this agreement is as follows:

1996	$ 35,460,000
1997	35,460,000
1998	35,460,000
1999	35,460,000
2000	35,460,000
Thereafter	70,920,000
	$ 248,220,000

Heber-Mirage Transmission Project

The District entered into an agreement with several independent small power producers operating in the Imperial Valley. The agreement provided for the construction of the Heber-Mirage Transmission Project (Project) consisting of a new electric transmission line and alternative energy resource facility. The Project was funded entirely by the participants and was completed in 1988. The total extent of the participants' funding contributions, as provided for by the agreement, totaled $65,188,400.

In exchange for such funding contributions to construct the Project, the District agreed to grant each participant transmission credits equal to the total amount of their respective contributions, including finance costs and other fees. These transmission credits are used to offset periodic energy billings for power generated by the Project and sold to the participants, and expire after 15 years from the completion date of the Project. Such credits, which totaled $18,886,633 and $8,966,453 in 1995 and 1994, respectively, are recorded as revenue and a corresponding reduction of contributed capital in the accompanying combined financial statements.

Postretirement Benefits

In addition to the pension benefits described in note 11 to the combined financial statements, the District provides health and medical insurance benefits for its retired employees. Employees are eligible upon reaching the normal retirement age of 65 or upon early retirement at 55 with ten years of service. Approximately 260 employees meet the eligibility requirements. The District pays the majority of the monthly premium depending upon the age of the employee and the number of dependents the employee wished to include in the plan. Expenses for this plan are recognized on a "pay-as-you-go" basis. Premiums for such health benefits, which are not significant as compared to total administrative expenses, are expensed when claims are paid and amounted to approximately $1,274,000 and $1,457,000 for 1995 and 1994, respectively.

(13) Metropolitan Water District Water Conservation Program

Beginning in January 1990, the District received payments from the Metropolitan Water District of Southern California (MWD), to initiate a water conservation program. The purpose of such payments is to provide capital for District-constructed water conservation projects in the Imperial Valley. In 1995 and 1994, the District received $11,237,754 and $11,347,959, respectively, as reimbursement for approved capital costs. Cumulative payments received total approximately $108,720,909 and $97,483,155 at December 31, 1995 and 1994, respectively. The District will be reimbursed for approved amounts, including certain indirect costs, through the year 2028. In return for such payments, MWD will be entitled to receive the water that is estimated to be conserved as a result of the implemented conservation measures. In 1993, the District received an additional $4,600,000 from MWD that is included in other restricted cash and has been set aside for indirect costs.

(14) Voluntary Staff Reduction Program

On November 21, 1995, the Board of Directors authorized a voluntary staff reduction program to become effective January 27, 1996. The program was offered to all employees with at least four years of continuous active service.

Program incentives provided a one-time cash bonus equal to one week of base salary for each year of active service and an additional three years of credited service to the pension plan. Eighty employees elected to participate in the program.

The cash bonus totaled approximately $2,100,000 and is included in accrued compensation and payroll taxes in the accompanying combined financial statements. Also included in accrued compensation and payroll taxes in the accompanying combined financial statements is approximately $1,870,000 representing management's estimate of the required additional contributions to the pension plan. No decision has been made as to the exact timing for the payment of such additional pension contribution requirement.

Eligible sick leave and vacation of approximately $1,070,000 and $330,000, respectively, has also been included in accrued compensated absences in the accompanying combined financial statements.

As a result of implementing this program, the District estimates a net cost savings of approximately $1,430,000 in 1996 and additional future salary and benefit savings totaling approximately $6,000,000 thereafter.

IMPERIAL IRRIGATION DISTRICT

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