IMPERIAL IRRIGATION DISTRICT

1996 Annual Report



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IMPERIAL IRRIGATION DISTRICT

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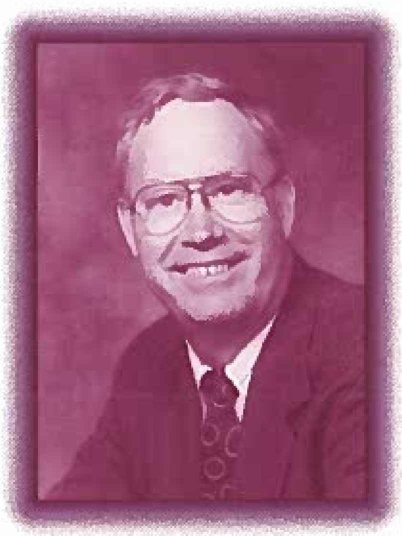
A New World of Partners

It was a healthy sense of independence and self worth that helped our valleys bloom from barren desert to become a rich year-round food and fiber factory and a good place to live. We brought the water, built the power supply, grew the crops and established communities that appreciated the ability to prosper in an agrarian society. The Imperial and Coachella valleys were perhaps twins at birth but have taken different paths to adulthood. Yet in their shared roots a kindred spirit of independence prevails.

Michael J. Clinton
General Manager



It is with some sense of wonder - and perhaps trepidation - that these communities face a future that will cause them to go outside themselves as never before, seeking out partners with which to assure the future of two vital resources - water and power.

The year 1996 drew a line of demarcation between the past and the future. Two watershed events have jump-started Imperial Irrigation District's next era: a landmark Water Transfer and Conservation proposal with the San Diego County

Water Authority was a catalyst for IID leadership on water issues; and milestone legislation deregulating California's electric power industry set IID's and all electric utilities in California on an exciting new course of competition which we support and are prepared to undertake.

In both cases, IID's future depends on working with savvy partners who can work with IID beyond our own boundaries so that we can stay healthy within them. This is true on both sides of the business -- water and power.

IID sees these essential and unavoidable market forces not as threatening but as bringing new ways to better meet customer needs. IID is not following these paradigm shifts but is helping to lead them. This new world order is for those who find the knowledge of what power and water will be in the next century and frame the vision to ensure their place in it.

The future has begun. It's looking good.

Michael J. Clinton

Michael J. Clinton

Message from the President

That rather aggressive maxim, "Change or Die," might seem to overstate the challenges of consumer-owned water and power companies. But it does strike a chord for those in the business who realize that in both water and power operations, the future will be nothing like the past.

On the power side, state utility deregulation has cast us as marketers in a competitive environment. On the water side, the pressure for Californians to live within their Colorado River entitlement is creating a political minefield but a land of opportunity.

William R. Condit
President, Board of Directors

This isn't the stuff of crisis. Rather, these realities offer a chance to plan for the future in such a way that our Imperial Valley water users and our Imperial and Coachella valley power consumers can benefit from a powerful resource system that matches the economic growth agendas in both communities. We are excited about the future.

But one fact is clear. On behalf of our customers, we must continue to learn from history, and embrace powerful trends that are defining the power and water industries of the future. We have done that in a number of ways in 1996. For our water customers, we:

- Developed draft terms of agreement for a water conservation and transfer program that could bring a minimum of $300 million to the Imperial Valley economy;

- Developed and presented a Regional Framework for Colorado River Water Users that can be the catalyst for efforts to live within California's 4.4 million acre-foot annual apportionment;

- Proposed a draft partnership agreement with the U.S. Bureau of Reclamation which would help define our beneficial water use and end disputes about how we use water for farming;

- Were the first to sign the Memorandum of Understanding with the State of California for important, voluntary water conservation measures.

Power activities were no less busy. In 1996, IID Power Department leaders spent thousands of hours helping to craft landmark state legislation which deregulated the power industry. This process will allow competition for commercial, industrial and residential customers among all power providers as it is phased in over several years.

"IID employees are exhibiting a greater sense of responsibility in the use of their benefits, which has saved money for the employees and the District. Keeping communication lines open and employees informed will help us continue our cost-saving practices"

Dawn M. Falkenstein
Employee Benefits Services Section
Human Resources Services Department

"The 'rugged spirit' of the pioneering Imperial Valley farmer is what shaped the IID in the past. Today, that same spirit still resides in the team-building employees who keep the IID moving ahead through difficult times. The soul of the IID is the average employee who maintains a positive team approach in the midst of turbulence.

The IID is at a crossroads and it is encouraging to watch those on Team IID, with the same 'rugged spirit' of our past, refusing to give up."

Travis N. Maston
Team IID Facilitator
La Quinta Division

IID is in a very strong position to meet power competitors and to create alliances that make us even more able to serve and retain our power customers. Our existing low rates, low debt and strategic geographical location offer a tremendous competitive advantage.

We supported the legislation that will change the fundamental structure of the power industry in California. Our aggressive participation in developing the details of that new structure has kept us on the right track. Our continuing challenge is to reach the ultimate objective: enabling customers to choose their energy supplier.

Lastly, our Power Department increased its efforts in business development aimed at drawing industry to our two valleys. These efforts will continue and grow in 1997 in concert with business development interests that are spreading the word about our friendly business climate.

In sum, 1996 was a year that could convince any doubter that the winds of change are blowing stronger. On your behalf, we have fully abandoned the status quo. Through our efforts toward water solutions and power market development, we have challenged our industry colleagues to do the same. We expect that 1997 will reflect continued progress in transforming IID into a model for the 21st century.

W. R. Condit
William R. Condit

1996 Timeline

- Negotiations on Water Conservation and Transfer Proposal with San Diego County Water Authority (January - July)
- A targeted Retirement Incentive Plan reduced staff by 80 employees (January) Continued downsizing through attrition and hiring freeze has further reduced staff costs
- Team training program began for all employees (January)
- Released IID/SDCWA Conservation and Transfer Draft Terms (July)
- Transfer proposal public comment period (July - October)
- Draft Conservation Committee Plans (September)
- Governor signed landmark electricity deregulation bill (September)
- IID Board told Coachella Valley Energy and Sunline JPA that IID is not for sale (October.)
- IID celebrated 85th anniversary and dedicated its North Division facilities (November)
- Signed State Memorandum on Water Conservation (December)
- Draft U.S. Bureau of Reclamation Partnership Agreement (December)
- Announced IID Plan for Regional Water Framework (December)

IID Facts and Figures

Formed in 1911 to support agriculture, now about two-thirds of Imperial Valley economy

Combined budget: $250 million annually

1,100 employees

Governed by a five-person elected board of directors

Power: The Good News of Deregulation

85,000 customers in Imperial and Coachella valleys

Among the lowest cost power providers in the Southwest

On September 23, 1996, Governor Pete Wilson signed legislation making California the first state in the union to deregulate the electric power industry, signaling a fundamental change in the way IID does business.

As deregulation is phased in over several years, customers will be able to choose their energy supplier and local electric companies will be obligated to provide transmission and distribution of that power to its final destination.

IID supports deregulation, viewing it as an essential milestone in the move toward more competition and less regulation in many industries. Competition means the lowest possible rates and the best possible service for IID customers. IID intends to continue its service in the Coachella and Imperial valleys, a position that was strongly supported when the IID Board rejected proposals by the Sunline Services Group and Coachella Valley Energy to take over IID's facilities. In October, the IID Board resolved that IID and its facilities are not for sale and that we would oppose vigorously any takeover attempt.

IID has taken an aggressive role in helping formulate the protocols that will govern the cooperative relationships of players in the competitive power market. One example involves the relationship between IID and the Independent System Operator (ISO). Created by legislation, the ISO will operate the combined power grids of utilities in California and beyond. IID was successful in winning agreement on a concept called the "Metered Subsystem," which would allow IID to join in the ISO grid and still retain a large degree of control over IID generating units.

IID has been doing its deregulation homework in other ways. To control costs, IID's power employees are looking for every operational improvement that can produce greater efficiency. We have deferred transmission and generation projects that might not be economical in the new energy environment. We have reduced capital costs and are whittling away at overhead.

With initiative and focus, IID is being transformed into the kind of utility envisioned by both the public power companies and the investor-owned utilities that have supported deregulation: a customer-oriented, market-driven organization that provides the best for its customers -- and does it locally.

"No one knows what the full impact of power deregulation will be on the IID. But we have to be prepared – to take advantage of the opportunities deregulation will bring and to compete against other utilities. We have the technology to stay on the playing field. We have the training. We can be flexible."

Lawrence Carrillo, Jr.
Transmission/Distribution &
Engineering Section
Power Department

Water: A Torrent of Issues

500,000 acres of irrigated farmland

$1 billion in crop production

3,000 miles of interlocking canals, laterals and drainage ditches

In the roiling world of Western water, issues are never far below the surface. In 1996, IID tackled a number of major issues and advanced a handful of critical initiatives, taking a leadership role in the expanding arena of water marketing. In the process, IID became a more visible player in the transformation that is now well under way. Here are the major water happenings of 1996 and what they mean to IID customers:

This year California consumed 5.2 million acre-feet of Colorado River water, which is 18% over the 4.4 MAF it is entitled to use.

In a major speech to Colorado River water users, U.S. Interior Secretary Bruce Babbitt warned in December that California could no longer count on taking surplus water from the River. Babbitt urged California to conserve water and praised water transfers such as the proposal by IID and the San Diego County Water Authority.

IID negotiated with the San Diego County Water Authority and produced draft terms of agreement in July. They were then presented for community comment through workshops and public hearings. The terms propose a transfer of 200,000 acre-feet of water annually, phased in by 20,000 AF/yr. increments over ten years. Imperial Valley would benefit from increased conservation measures and also an influx of at least $300 million to the local economy in the first ten years.

Community concerns' which will be the subject of continuing negotiations in 1997, include the length of the agreement, the amount of water, the price, and the conservation methods that would be used.

IID took a leadership role on water issues by proposing a regional framework that could lead to solutions of nagging water distribution problems. The framework recognizes that agricultural water conservation and transfer to urban areas must be the cornerstone of any regional plan. The framework suggests water banking (storing water entitlements for dry years), overrun accounting (borrowing water against future years) and reworking reservoir policies as means to balance water needs among all Southern California water agencies.

The framework also calls for payments by California for use of surplus water from other states, with the money going to an augmentation fund that would be used to develop conservation programs and new sources of water. Development of the framework will continue in 1997.

IID customers will benefit from this effort as new and successful conservation programs reduce scrutiny on IID's rights to Colorado River water, which are the largest in the Colorado River Basin.

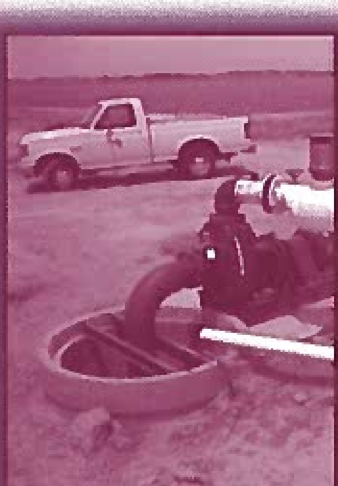
"Along with our engineering department, Project Management has taken a large stride in making the District more competitive. We know that these are costly times and we want to do our projects right the first time. From inception to turnover to whoever we serve, we do our best to fulfill the need and give the District a project it can be proud of."

Sylvester Jones
Project Management Section
Water Department

IID and the U.S. Bureau of Reclamation discussed a draft agreement in 1996 that would ultimately define IID's beneficial and reasonable use of water, a topic about which other agencies disagree. The partnership would address nine key objectives leading to regional solutions about Colorado River water use.

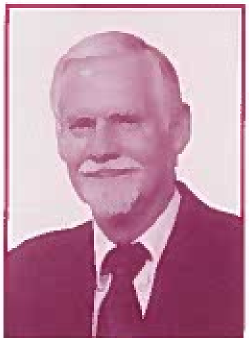
IID's agricultural sector would benefit as urban water users and other agencies are educated on the benefits and the economic feasibility of changing current irrigation practices.

Conservation will continue to guide much of IID's strategic planning in the future. In 1996, the District received independent verification of the effect of past and ongoing conservation programs. Major programs, including conservation measures for the last three decades, the joint program with Metropolitan Water District starting in 1989 and the proposed transfer with San Diego add up to nearly 435,000 AF of conserved water every year to be made available for use by junior priority water users including the residents of the Southern California Coastal Plain.



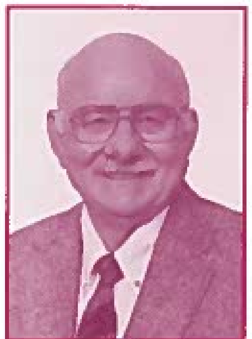
	Annual Savings
IID's Pre-1988 Water Conservation Program	**138,000 AF**
IID / MWD Water Conservation and Transfer Program	**97,000**
Proposed IID / SDCWA Water Conservation and Transfer Program	**200,000**
	435,000 AF

Board of Directors

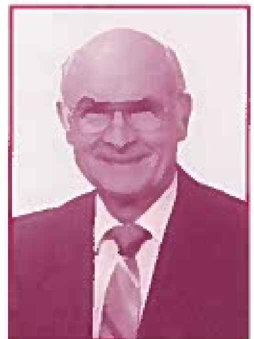


William R. Condit
Division 1

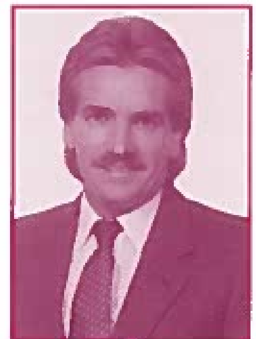
Ted Lyon
Division 2



Lloyd W. Allen
Division 3



Don H. Cox
Division 4



Ralph M. Menvielle
Division 5

Managers

Michael J. Clinton
General Manager

John Penn Carter
General Counsel

Jesse P. Silva
Deputy General Manager

Kenneth S. Noller
Assistant General Manager, Power

Eldon L. Moore
Assistant General Manager, Water

Paul M. Cunningham
Manager, External Affairs

Darryl L. Croft
Manager, Human Resources Services

Kristine K. Fontaine
Manager, Finance and Accounting

Environmental Section

"The goal of IID personnel, as providers of water and power to our communities, is to ensure that IID stays within compliance of all state and federal laws and regulations, as well as protecting our natural and historical resources."

George E. (Ed) Collins
Environmental Compliance Section
External Affairs Department

One of the major beneficial uses of irrigation water has often been one of the most overlooked: its value in establishing and maintaining habitat for more than 400 species of birds and other wildlife in Imperial Valley. Drainage from the Valley's use of irrigation water has created one of the most productive fisheries and waterfowl habitats in North America: the Salton Sea.

IID's water availability charge was increased in January to $6 an acre from $4 an acre and IID's cost of delivered water was increased to $12.50/AF from $12.00/AF to help fund Salton Sea flooding projects. The rising level of the Sea resulted in about $9 million in claims for flood damage and property purchases by the District in 1995. In July 1996, the District sold Certificates of Participation totaling $17.1 million to pay for additional flood damage, protective dikes and land acquisitions around the shoreline.

Because it is such a valuable wildlife area, environmental problems at the Sea have received national attention. An August attack of avian botulism resulted in the deaths of 14,000 pelicans and other waterfowl. Seasonal fish kills have also plagued the Sea. Rising salinity in this closed basin and fluctuating water levels have long been problems at the Salton Sea. The Salton Sea Authority, a JPA made up of representatives from IID, the Coachella Valley Water District, and the counties of Imperial and Riverside, has considered more than 50 ideas for stabilizing the salinity and level of the Sea. The SSA Board decided in October to select a diking project as the most cost-effective alternative.

Proposition 204, passed by California voters in November, provides for $2.5 million to match a federal grant for feasibility studies seeking ways to save the Salton Sea.

Multi-Species Habitat Restoration on the Colorado River

IID is an active participant in many organizations that help guide the progress of environmental and conservation activities related to the Colorado River. These activities concern IID because of their possible effect on Boulder Canyon and Parker-Davis project operations. One of these organizations is the Multi-Species Conservation Program (MSCP).

The MSCP is a joint effort in cooperation with the Department of the Interior. State agencies,

"In these ever-changing times for the IID, the employees in Community Relations have not forgotten our commitment to our customers – the public. We continue to provide information concerning power and water issues as well as educating our schoolchildren on the importance of canal and electrical safety. Though the times change, our goal remains the same – we are committed to keeping our customers informed."

Sandra Diaz-Corella
Community Relations Section
External Affairs Department

"One of the most positive aspects of my job in General Accounting is the trust that all the employees have for each other. This is very special and is something that cannot be taught or learned. It is something you acquire as you grow together."

Bernice I. Rabb
General Accounting Section
Finance and Accounting Department

water and power interests in the states of Arizona, California and Nevada, along with Native American Tribes, environmental groups and others are involved. The program attempts to provide solutions to Endangered Species Act (ESA) requirements on the Colorado River from Hoover Dam to the Mexican boundary. These solutions, while meeting ESA requirements, are to have little impact on present and future development of water and power resources. The MSCP includes a three-year planning period when the participants will produce a long-term (fifty-year) program that addresses the area's endangered or threatened species' needs. As a demonstration of good faith during this period, the MSCP will also fund interim conservation measures to help conserve the species.

Parts of the Colorado River and its tributaries are designated "critical habitat" areas for four endangered fish: the Colorado squawfish, razorback sucker, humpback chub and bonytail. They exist only in the Colorado River Basin. A major purpose of the MSCP is ensuring the survival of these species, while allowing for the continued use of the River's economic potential.

Independent Auditors' Report

KPMG Peat Marwick LLP

We have audited the accompanying combined balance sheets of Imperial Irrigation District (District) as of December 31, 1996 and 1995 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, 1997 on our consideration of Imperial Irrigation District's internal control structure and a report dated February 28, 1997 on its compliance with laws and regulations.

As discussed in note 9 to the combined financial statements, Imperial Irrigation District retroactively adopted the provisions of the Government Accounting Standards Board's Statements of Governmental Accounting Standards No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," and No. 27, "Accounting for Pensions by State and Local Government Employers."

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, 1996 and 1995 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

February 28, 1997

KPMG Peat Marwick LLP

Combined Balance Sheets

December 31, 1996 and 1995

	1996			1995		
Assets	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Current assets:						
Cash and investments *(note 2)*	$ --	2,130,711	2,130,711	--	74,194	74,194
Receivables:						
Trade	6,175,149	15,052,196	21,227,345	6,182,167	16,900,673	23,082,840
Interest	106,334	1,615,760	1,722,094	286,495	1,089,671	1,376,166
Other	3,357,593	2,741,037	6,098,630	686,774	1,594,661	2,281,435
	9,639,076	19,408,993	29,048,069	7,155,436	19,585,005	26,740,441
Less allowance for doubtful accounts	(219,718)	(3,414,346)	(3,634,064)	(170,621)	(3,573,616)	(3,744,237)
Net receivables	9,419,358	15,994,647	25,414,005	6,984,815	16,011,389	22,996,204
Inventories:						
Fuel oil	--	2,875,126	2,875,126	--	3,123,787	3,123,787
Materials and supplies	585,613	8,186,889	8,772,502	789,360	10,602,987	11,392,347
Total inventories	585,613	11,062,015	11,647,628	789,360	13,726,774	14,516,134
Prepaid expenses and deferred charges	908,197	2,769,949	3,678,146	64,066	2,732,720	2,796,786
Total current assets	10,913,168	31,957,322	42,870,490	7,838,241	32,545,077	40,383,318
Cash and investments, restricted as to use and allocated for *(note 2)*:						
Debt service	2,319,407	24,654,671	26,974,078	263,036	24,228,266	24,491,302
Construction	15,379,628	51,728,962	67,108,590	2,649,015	54,346,252	56,995,267
Self-insurance	16,246,000	2,821,000	19,067,000	15,391,000	3,166,000	18,557,000
Employee-deferred compensation *(note 4)*	8,747,379	8,747,379	17,494,758	7,837,106	7,837,106	15,674,212
Other	1,679,783	18,019,282	19,699,065	4,229,454	18,169,833	22,399,287
	44,372,197	105,971,294	150,343,491	30,369,611	107,747,457	138,117,068
Utility plant, at cost *(note 3)*:						
Plant in service	300,558,674	740,143,819	1,040,702,493	281,876,427	711,677,528	993,553,955
Less accumulated depreciation	(64,585,793)	(233,109,319)	(297,695,112)	(58,338,851)	(213,126,576)	(271,465,427)
	235,972,881	507,034,500	743,007,381	223,537,576	498,550,952	722,088,528
Construction in process	969,260	11,790,495	12,759,755	610,850	1,896,263	2,507,113
	236,942,141	518,824,995	755,767,136	224,148,426	500,447,215	724,595,641
	$ 292,227,506	656,753,611	948,981,117	262,356,278	640,739,749	903,096,027

Continued

Combined Balance Sheets

December 31, 1996 and 1995

Liabilities and District Equity	1996 Water Department	1996 Power Department	1996 Combined	1995 Water Department	1995 Power Department	1995 Combined
Current liabilities:						
Current maturities of long-term debt *(note 5)*	$ 1,194,344	12,402,177	13,596,521	365,691	11,563,918	11,929,609
Accounts payable	1,830,524	12,217,328	14,047,852	1,128,331	11,647,020	12,775,351
Accrued interest payable	6,053	1,771,486	1,777,539	18,866	1,866,409	1,885,275
Accrued compensation and payroll taxes *(note 13)*	1,870,169	1,870,169	3,740,338	2,968,125	2,968,125	5,936,250
Accrued compensated absences *(note 13)*	20,749	172,636	193,385	596,887	898,180	1,495,067
Deferred revenues	3,077,176	--	3,077,176	3,079,021	--	3,079,021
Total current liabilities	7,999,015	28,433,796	36,432,811	8,156,921	28,943,652	37,100,573
Liabilities payable from restricted assets:						
Other accrued expenses, noncurrent portion *(note 11)*	15,646,000	2,221,000	17,867,000	15,946,000	2,221,000	18,167,000
Employee-deferred compensation *(note 4)*	8,747,379	8,747,379	17,494,758	7,837,106	7,837,106	15,674,212
Advances and deposits from customers	605,007	1,661,934	2,266,941	365,778	1,539,334	1,905,112
Refundable to customers	--	15,753,459	15,753,459	--	16,101,411	16,101,411
	24,998,386	28,383,772	53,382,158	24,148,884	27,698,851	51,847,735
Long-term debt *(note 5)*:						
Certificates of participation *(note 6)*	16,471,003	145,315,735	161,786,738	--	156,524,643	156,524,643
Bonds payable *(note 7)*	1,736,591	--	1,736,591	1,809,997	--	1,809,997
Capital leases *(note 8)*	1,167,261	1,088,871	2,256,132	835,435	1,125,607	1,961,042
	19,374,855	146,404,606	165,779,461	2,645,432	157,650,250	160,295,682
Deferred credits and other liabilities:						
Advances for construction	--	10,186	10,186	--	8,778	8,778
Accrued vacation and sick leave, noncurrent portion	2,672,353	1,826,929	4,499,282	2,097,896	1,874,018	3,971,914
	2,672,353	1,837,115	4,509,468	2,097,896	1,882,796	3,980,692
Total liabilities	55,044,609	205,059,289	260,103,898	37,049,133	216,175,549	253,224,682
District equity:						
Contributions in aid of construction	100,177,748	26,711,077	126,888,825	95,842,210	34,036,762	129,878,972
Retained earnings	137,005,149	424,983,245	561,988,394	129,464,935	390,527,438	519,992,373
Total District equity	237,182,897	451,694,322	688,877,219	225,307,145	424,564,200	649,871,345
	$ 292,227,506	656,753,611	948,981,117	262,356,278	640,739,749	903,096,027

See accompanying notes to combined financial statements.

Combined Statements of Income

Years ended December 31, 1996 and 1995

	1996			1995		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Operating revenues:						
Power sales	$ --	189,231,800	189,231,800	--	178,382,722	178,382,722
Water sales	36,716,934	--	36,716,934	33,659,990	--	33,659,990
Water availability charge	2,951,788	--	2,951,788	1,981,882	--	1,981,882
Interdepartmental charges *(note 10)*:						
Use of All-American Canal	3,731,000	(3,731,000)	--	3,740,000	(3,740,000)	--
Power sales	(410,313)	410,313	--	(539,801)	539,801	--
Heber-Mirage transmission credits *(note 11)*	--	8,207,723	8,207,723	--	8,886,633	8,886,633
Other	--	2,066,257	2,066,257	--	1,907,599	1,907,599
	42,989,409	196,185,093	239,174,502	38,842,071	185,976,755	224,818,826
Operating expenses:						
Cost of fuel	--	12,159,986	12,159,986	--	9,877,203	9,877,203
Purchased power	--	88,708,832	88,708,832	--	87,583,679	87,583,679
Other power expenses	--	21,183,636	21,183,636	--	23,679,762	23,679,762
Operation and maintenance of All-American Canal	1,936,104	--	1,936,104	1,842,700	--	1,842,700
Operation and maintenance of irrigation system and dams	20,815,928	--	20,815,928	18,644,638	--	18,644,638
General and administration expense	12,304,914	16,570,957	28,875,871	21,464,899	19,318,683	40,783,582
Provision for depreciation *(note 3)*	5,668,521	20,571,725	26,240,246	5,499,034	20,263,439	25,762,473
	40,725,467	159,195,136	199,920,603	47,451,271	160,722,766	208,174,037
Net operating income (loss)	2,263,942	36,989,957	39,253,899	(8,609,200)	25,253,989	16,644,789
Nonoperating revenues (expenses):						
Interest income	995,040	4,811,171	5,806,211	808,913	5,158,392	5,967,305
Interest expense	(416,342)	(9,696,206)	(10,112,548)	(67,823)	(10,539,174)	(10,606,997)
Other income	1,072,505	1,080,747	2,153,252	1,014,510	1,238,169	2,252,679
Other expenses	(831)	(16,856)	(17,687)	(833)	(9,422)	(10,255)
	1,650,372	(3,821,144)	(2,170,772)	1,754,767	(4,152,035)	(2,397,268)
Net income (loss)	$ 3,914,314	33,168,813	37,083,127	(6,854,433)	21,101,954	14,247,521

See accompanying notes to combined financial statements.

Combined Statements of Changes in District Equity

Years ended December 31, 1996 and 1995

	Water Department	Power Department	Combined
Retained earnings:			
Balance at January 1, 1996	$ 129,464,935	390,527,438	519,992,373
Net income	3,914,314	33,168,813	37,083,127
Add back depreciation of fixed assets acquired through contributions *(note 3)*	3,625,900	1,286,994	4,912,894
Balance at December 31, 1996	137,005,149	424,983,245	561,988,394
Contributions in aid of construction:			
Balance at January 1, 1996	95,842,210	34,036,762	129,878,972
Contributions received	7,961,438	2,169,032	10,130,470
Heber-Mirage transmission credits *(note 12)*	--	(8,207,723)	(8,207,723)
Less depreciation of fixed assets acquired through contributions *(note 3)*	(3,625,900)	(1,286,994)	(4,912,894)
Balance at December 31, 1996	100,177,748	26,711,077	126,888,825
Total District equity at December 31, 1996	$ 237,182,897	451,694,322	688,877,219
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

See accompanying notes to combined financial statements.

Combined Statements of Cash Flows

Years ended December 31, 1996 and 1995

	1996			1995		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Cash flows from operating activities:						
Operating income (loss)	$ 2,263,942	36,989,957	39,253,899	(8,609,200)	25,253,989	16,644,789
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization *(note 3)*	6,747,425	21,252,857	28,000,282	6,321,968	21,071,690	27,393,658
(Gain) loss on disposal of property	25,530	130,127	155,657	(18,040)	262,627	244,587
Heber-Mirage transmission credits *(note 12)*	--	8,207,723	(8,207,723)	--	(8,886,633)	(8,886,633)
(Increase) decrease in assets and increase (decrease) in liabilities:						
Trade accounts receivable	7,018	1,848,477	1,855,495	(1,516,064)	(1,432,091)	(2,948,155)
Other receivables	(2,670,819)	(1,146,376)	(3,817,195)	(498,382)	1,818,446	1,320,064
Allowance for uncollectible accounts, net	49,097	(159,270)	110,173	9,680	905,430	915,110
Inventories	203,747	2,664,759	2,868,506	52,960	(787,065)	734,105
Prepaid expenses and deferred charges	(361,019)	(257,673)	(618,692)	11,871	(82,319)	70,448
Accounts payable	702,193	570,308	1,272,501	(520,819)	(322,468)	(843,287)
Accrued compensation and payroll taxes *(note 14)*	(1,097,956)	(1,097,956)	(2,195,912)	1,727,215	1,727,215	3,454,430
Accrued compensated absences *(note 14)*	(1,681)	(772,633)	(774,314)	282,006	189,999	472,005
Deferred revenues	(1,845)	--	(1,845)	567,021	--	567,021
Other accrued expenses	(300,000)	--	(300,000)	--	--	--
Employee deferred compensation *(note 5)*	910,273	910,273	1,820,546	907,605	907,605	1,815,210
Refundable to customers	--	(347,952)	(347,952)	--	11,843,605	11,843,605
Total adjustments	4,211,963	15,387,218	19,599,181	7,327,021	27,216,041	34,543,062
Net cash provided by (used in) operating activities	6,475,905	52,377,175	58,853,080	(1,282,179)	52,470,030	51,187,851
Cash flows from noncapital financing activities - other nonoperating income	1,071,674	1,063,891	2,135,565	1,013,677	1,228,747	2,242,424
Cash flows from investing activities:						
Interest received	1,175,201	4,285,082	5,460,283	1,003,530	5,721,460	6,724,990
(Purchases) sales of investments, net	(12,114,390)	4,631,187	(7,483,203)	16,610,628	(17,219,636)	(609,008)
Net cash provided by (used in) investing activities	(10,939,189)	8,916,269	2,022,920	17,614,158	(11,498,176)	6,115,982

Continued

Combined Statements of Cash Flows, Continued

	1996			1995		
	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)*	$ 16,451,684	--	16,451,684	--	--	--
Principal payments of long-term debt *(note 5)*	(508,016)	(11,601,014)	(12,109,030)	(294,329)	(10,778,928)	(11,073,257)
Interest paid on long-term debt, excluding interest capitalized of $490,900 in 1996 and $1,417,600 in 1995	(412,948)	(8,949,593)	(9,362,541)	(67,265)	(10,106,115)	(10,173,380)
Capital expenditures	(18,633,644)	(39,482,795)	(58,116,439)	(18,954,305)	(29,428,070)	(48,382,375)
Proceeds from sale of property	182,063	295,976	478,039	11,029	11,029	22,058
Increase (decrease) in advances and deposits	239,229	122,600	361,829	(47,442)	23,828	(23,614)
Additions to contributions in aid of construction	7,961,438	2,169,032	10,130,470	7,014,193	4,502,338	11,516,531
Net cash provided by (used in) capital financing activities	5,279,806	(57,445,794)	(52,165,988)	(12,338,119)	(45,775,918)	(58,114,037)
Net increase (decrease) in cash and cash equivalents	1,888,196	4,911,541	6,799,737	5,007,537	(3,575,317)	1,432,220
Cash and cash equivalents at beginning of year	14,515,954	17,966,727	32,482,681	9,508,417	21,542,044	31,050,461
Cash and cash equivalents at end of year	$ 16,404,150	22,878,268	39,282,418	14,515,954	17,966,727	32,482,681
Cash and cash equivalents	$ 16,404,150	22,878,268	39,282,418	14,515,954	17,966,727	32,482,681
Investments	27,968,047	85,223,737	113,191,784	15,853,657	89,854,924	105,708,581
Total cash and investments	$ 44,372,197	108,102,005	152,474,202	30,369,611	107,821,651	138,191,262
Schedule of noncash investing and financing activities:						
Capital expenditures	$ (1,040,433)	(576,646)	(1,617,079)	(932,631)	(1,196,799)	(2,129,430)
Assumption of obligations under capital leases	1,040,433	576,646	1,617,079	932,631	1,196,799	2,129,430
Issuance of long-term debt	495,499	--	495,499	--	--	--
Additions to deferred charges - issuance costs of long-term debt	(495,499)	--	(495,499)	--	--	--
Interest expense	(16,207)	(841,536)	(857,743)	--	(807,060)	(807,060)
Accretion on capital appreciation certificates of 1990 Certificates of Participation	--	517,989	517,989	--	483,395	483,395
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	--	14,546	14,546
1993 Certificates of Participation	--	30,267	30,267	--	30,267	30,267
1994 Certificates of Participation	--	(12,982)	(12,982)			
1996 Certificates of Participation	3,820	--	3,820	--	(12,864)	(12,864)
Amortization of certificate issuance costs:						
1990 Certificates of Participation	--	60,242	60,242	--	60,242	60,242
1991 Certificates of Participation	--	81,039	81,039	--	81,039	81,039
1993 Certificates of Participation	--	36,480	36,480	--	36,480	36,480
1994 Certificates of Participation	--	42,683	42,683	--	42,683	42,683
1996 Certificates of Participation	$ 12,387	--	12,387	--	--	--

See accompanying notes to combined financial statements.

(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 separated 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.

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 11). 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 preparing the accompanying combined statements of cash flows.

Reclassifications

Certain amounts in the 1995 combined financial statements have been reclassified in order to conform to the 1996 combined financial statement 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 $2,116,685 and $1,675,375 at December 31, 1996 and 1995, 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, 1996 and 1995 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, 1996 and 1995 are as follows:

1996

	Carrying amount	Bank balance
Insured	$ 993,174	857,708
Collateralized	2,659,624	4,363,923
Total cash deposits	$ 3,652,798	5,221,631

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

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 31,1996 and 1995 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 1996 and 1995 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 $10,212,375 and $19,242,294 at December 31, 1996 and 1995, 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 $2,000,000 at December 31, 1996 and 1995, respectively. Because of the nature of these inverse floaters, as general interest rate levels increase, the pay rates 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 2.92% and 2.14%, and the unrealized loss was $645,930 and $1,473,881, or 30.5% and 88.0% of total portfolio unrealized losses, at December 31, 1996 and 1995, respectively.

The District's investments at December 31, 1996 and 1995 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, 1996 and 1995.

Notes To Combined Financial Statements, Continued

The District's investments at December 31, 1996 and 1995 are categorized by level of custodial risk in the following table:

	1996		1995	
	Carrying amount	Market value/ contractual amount	Carrying amount	Market value/ contractual amount
Risk category 1:				
U.S. Government securities	$ 14,060,753	14,219,792	8,212,727	8,239,514
U.S. Government agency securities	22,751,843	22,285,010	32,381,758	31,294,583
Medium-term corporate notes	39,041,186	38,414,128	19,497,648	19,472,937
Negotiable certificates of deposit	100,000	100,000	100,000	100,000
Total risk category 1	75,953,782	75,018,930	60,192,133	59,107,034
Risk category 2:				
U.S. Government agency securities	30,163,680	29,506,724	39,136,787	38,917,130
Medium-term corporate notes	5,673,121	5,570,097	3,026,670	3,101,340
Total risk category 2	35,836,801	35,076,821	42,163,457	42,018,470
Risk category 3:				
U.S. Government agency securities	407,068	408,341	3,339,969	3,300,797
Negotiable certificates of deposit	20,092	20,092	13,022	13,022
Commercial paper	974,042	993,560	–	–
Total risk category 3	1,401,202	1,421,993	3,352,991	3,313,819
Investments not required to be categorized:				
State Treasurer's Local Agency Investment Fund	14,900,000	14,900,000	8,400,000	8,400,000
Mutual fund investments	3,234,861	2,792,217	4,364,708	3,958,591
Employee deferred compensation plan (held in mutual funds)	17,494,758	17,494,758	15,674,212	15,674,212
Total investments not required to be categorized	35,629,619	35,186,975	28,438,920	28,032,803
Total investments	148,821,404	$ 146,704,719	134,147,501	132,472,126
Cash deposits	3,652,798		4,043,761	
Net cash and investments	$ 152,474,202		138,191,262	
Net unrealized loss on investments		$ 2,116,685		1,675,375

(3) Utility Plant

Utility plant is comprised of the following at December 31, 1996 and 1995:

	1996			1995		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Land and land rights	$ 10,679,743	7,384,611	18,064,354	8,149,743	7,269,051	15,418,794
Structures and improvements	7,587,719	71,515,178	79,102,897	6,453,187	70,266,855	76,720,042
Canals	169,371,605	--	169,371,605	159,056,979	--	159,056,979
Drainage	44,136,630	--	44,136,630	41,005,992	--	41,005,992
All-American Canal	23,863,478	--	23,863,478	23,863,478	--	23,863,478
Conservation equipment	961,285	--	961,285	961,285	--	961,285
Dredges and field equipment	6,823,894	1,884,222	8,708,116	6,589,978	1,695,118	8,285,096
Automobiles and trucks	9,298,469	11,626,332	20,924,801	8,496,588	10,905,674	19,402,262
Other plant equipment	22,814,041	31,824,877	54,638,918	22,277,387	29,800,626	52,078,013
Steam plant equipment	--	107,103,749	107,103,749	--	104,316,243	104,316,243
Hydroelectric generating equipment	--	22,167,399	22,167,399	--	21,775,297	21,775,297
Gas turbines	--	23,968,044	23,968,044	--	23,968,044	23,968,044
Transmission plant	--	202,976,995	202,976,995	--	198,082,849	198,082,849
Distribution plant	--	256,047,741	256,047,741	--	239,953,100	239,953,100
Reservoirs and dams	5,021,810	3,644,671	8,666,481	5,021,810	3,644,671	8,666,481
Plant in service	300,558,674	740,143,819	1,040,702,493	281,876,427	711,677,528	993,553,955
Less accumulated depreciation:						
Balance at beginning of year	58,338,850	213,126,576	271,465,426	52,307,976	196,165,513	248,473,489
Add:						
Depreciation of fixed assets not acquired through contributions	3,121,525	19,965,863	23,087,388	2,926,964	19,603,535	22,530,499
Depreciation of fixed assets acquired through contributions	3,625,900	1,286,994	4,912,894	3,395,004	1,468,155	4,863,159
Less retirements, net	(500,482)	(1,270,114)	(1,770,596)	(291,093)	(4,110,627)	(4,401,720)
Balance at end of year	64,585,793	233,109,319	297,695,112	58,338,851	213,126,576	271,465,427
	235,972,881	507,034,500	743,007,381	223,537,576	498,550,952	722,088,528
Construction in process	969,260	11,790,495	12,759,755	610,850	1,896,263	2,507,113
Net book value of utility plant assets	$ 236,942,141	518,824,995	755,767,136	224,148,426	500,447,215	724,595,641

Provision for depreciation and amortization expense for the years ended December 31, 1996 and 1995 are allocated as follows:

	1996			1995		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Included in operation and maintenance expenses	$ 1,078,904	681,133	1,760,037	822,934	808,251	1,631,185
Provision for depreciation	5,668,521	20,571,724	26,240,245	5,499,034	20,263,439	25,762,473
Total depreciation	6,747,425	21,252,857	28,000,282	6,321,968	21,071,690	27,393,658
Amortization of contributions	(3,625,900)	(1,286,994)	(4,912,894)	(3,395,004)	(1,468,155)	(4,863,159)
Net reduction of retained earnings from depreciation	$ 3,121,525	19,965,863	23,087,388	2,926,964	19,603,535	22,530,499

(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, 1996 and 1995, net assets available for benefits amounted to $17,494,758 and $15,674,212, 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. Participants' rights under the plan are equal to general creditors of the District in an amount equal to the fair market value of the deferred account for each participant.

Recently approved Federal legislation will require that Section 457 plan assets be held in trust for employees. This change, expected to be implemented in 1998, will mean that employee assets held in Section 457 plans will no longer legally remain the property of the District. At that time, these assets will no longer be subject to claims of the District's general creditors.

(5) Long-Term Debt

Long-term debt consists of the following at December 31, 1996 and 1995:

1996

	Water Department		Power Department		
	Current portion	Long-term portion	Current portion	Long-term portion	Total
Certificates of Participation - 1990, net of unamortized original issue discount of $947,910 and cumulative accretion of $2,826,541 on capital appreciation certificates *(note 6)*	$ --	--	4,615,000	36,233,630	40,848,630
Certificates of Participation - 1991, net of unamortized original issue discount of $18,910 *(note 6)*	--	--	6,705,000	7,051,090	13,756,090
Certificates of Participation - 1993, net of unamortized original issue discount of $387,418 *(note 6)*	--	--	410,000	42,342,582	42,752,582
Certificates of Participation - 1994, net of unamortized original issue premium of $283,433 *(note 6)*	--	--	100,00	59,688,433	59,788,433
Certificates of Participation - 1996, net of unamortized original issue premium of $148,997 *(note 6)*	480,000	16,471,003	--	--	16,951,003
Water bonds payable *(note 7)*	73,407	1,736,591	--	--	1,809,998
Obligation under capital lease *(note 8)*	640,937	1,167,261	572,177	1,088,871	3,469,246
	$ 1,194,344	19,374,855	12,402,177	146,404,606	179,375,982

1995

	Water Department		Power Department		
	Current portion	Long-term portion	Current portion	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 7)*	70,547	1,809,997	--	--	1,880,544
Obligation under capital lease *(note 8)*	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

(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 1996 and 1995.

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, 1996 and 1995.

The outstanding balance of 1990 COPs was $40,848,630 and $44,594,369, net of the unamortized original issue discount of $947,910 and $1,019,181 and cumulative accretion on capital appreciation certificates of $2,826,541 and $2,308,552, at December 31, 1996 and 1995, 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, 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
November 1, 2001	410,838	1,497,562	1,908,400
Thereafter	21,875,323	10,933,014	32,808,337
Original issue discount	(947,910)	--	(947,910)
	$ 40,848,630	20,536,157	61,384,787

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 1996 and 1995.

The outstanding balance of 1991 COPs was $13,756,090 and $20,091,544, net of unamortized original issue discount of $18,910 and $33,456, at December 31, 1996 and 1995, respectively.

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, 1997	$ 6,705,000	595,103	7,300,103
May 1, 1998	7,070,000	203,263	7,273,263
Original issue discount	(18,910)	--	(18,910)
	$ 13,756,090	798,366	14,554,456

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 1996 and 1995.

The outstanding balance of 1993 COPs was $42,752,582 and $43,117,315, net of unamortized original issue discount of $387,418 and $417,685, at December 31, 1996 and 1995, 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, 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
November 1, 2001	5,480,000	2,049,805	7,529,805
Thereafter	35,920,000	9,605,735	45,525,735
Original issue discount	(387,418)	--	(387,418)
	$ 42,752,582	20,040,366	62,792,948

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 $59,788,433 and $59,901,415 at December 31, 1996 and 1995, respectively, including unamortized original issue premium of $283,433 and $296,415, respectively.

The terms of the 1994 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for 1996 and 1995.

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, 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
November 1, 2001	465,000	3,599,700	4,064,700
Thereafter	57,960,000	45,018,188	102,978,188
Original issue premium	283,433	--	283,433
	$ 59,788,433	63,215,488	123,003,921

1996 Issue

On July 16, 1996, the District issued $17,100,000 of 1996 Revenue Certificates of Participation (1996 Water System Project) (1996 COPs) to provide funds to finance a portion of the costs of certain improvements to the District's water system, to fund a reserve fund for the 1996 COPs and to pay costs of delivery of the 1996 COPs.

The 1996 COPs consist of $7,155,000 serial certificates maturing in amounts ranging from $480,000 to $825,000 at rates ranging from 3.80% to 5.50% maturing on July 1, 1997 through 2007, respectively, $4,895,000 term certificates maturing on July 1, 2012 at 5.875% and $5,050,000 term certificates maturing on July 1, 2016 at 5.75%. The term certificates are subject to mandatory prepayment prior to their respective maturity dates, in part by lot, beginning July 1, 2008 and 2013, respectively. The certificates maturing on or before July 1, 2006 are not subject to optional prepayment prior to maturity. The certificates maturing on or after

July 1, 2007 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, 2006. Any prepayments on July 1, 2006 through June 30, 2007 are subject to a prepayment premium of 1%; any prepayments on July 1, 2007 through June 30, 2008 are subject to a prepayment premium of 0.5%; and no prepayment premium thereafter.

The 1996 COPs were issued with an original issue premium of $152,817 and costs of issuance of $495,499, which are amortized to interest expense over the life of the 1996 COPs. The outstanding balance of 1996 COPs was $16,951,003 at December 31, 1996, including unamortized original issue discount of $148,997.

The terms of the 1996 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for 1996.

A summary of debt service for the District's outstanding 1996 COPs is as follows:

Due date	Principal amount	Interest	Total debt service
July 1, 1997	$ 480,000	929,896	1,409,896
July 1, 1998	540,000	911,656	1,451,656
July 1, 1999	560,000	888,436	1,448,436
July 1, 2000	585,000	863,516	1,448,516
July 1, 2001	615,000	836,314	1,451,314
Thereafter	14,320,000	7,415,388	21,735,388
Original issue discount	(148,997)	--	(148,997)
	$ 16,951,003	11,845,206	28,796,209

(7) 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, 1996 and 1995 was $1,809,998 and $1,880,544, respectively.

The debt service on such obligation is as follows:

	Principal	Interest	Total debt service
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
2001	86,052	59,259	145,311
Thereafter	1,411,980	382,981	1,794,961
	$ 1,809,998	711,518	2,521,516

(8) 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
1997	$ 1,195,594	166,097	53,416	1,415,107
1998	1,124,282	141,588	53,416	1,319,286
1999	928,217	295	53,416	981,928
2000	85,390	--	4,451	89,841
	3,333,483	307,980	164,699	3,806,162
Less interest portion	(302,452)	(16,400)	(18,064)	(336,916)
Net	$ 3,031,031	291,580	146,635	3,469,246

(9) Employee Benefit Plan

The Imperial Irrigation District Employee Pension Plan (Plan) is a noncontributory defined benefit pension plan sponsored by the District. The Plan provides retirement and death benefits to plan members and beneficiaries. Prior to January 1, 1985, participants made contributions to the Plan at various rates. Subsequent to that date, no participant contributions were required, or allowed, under the Plan. All full-time employees are eligible under the Plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the Manager of Finance and Accounting at the District offices.

The District adopted GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," and No. 27, "Accounting for Pensions by State and Local Government Employers," effective January 1, 1995. No adjustments to District equity resulted from the adoption of these governmental accounting financial standards.

At December 31, 1996 and 1995, membership consisted of:

	1996	1995
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving such benefits	420	435
Current employees:		
Vested	959	895
Nonvested	44	108
Total membership	1,423	1,438

Pension Benefits

Participants are eligible for annual benefit payments at the normal retirement age of 65 and completion of 10 years of credited service. Monthly benefit payments are currently determined by dividing (a) the number of complete calendar months of credited service (not to exceed 360 months) by (b) the number of complete calendar months of credited service which could have been completed (not to exceed 360 months); multiplying the result by (c) 75% of average monthly base salary, reduced by 1/360th for each calendar month of credited service less than 360 which the participant has or could have completed at his normal retirement date after August 31, 1969 or, if later, his date of entry into the Plan and adding the result to (d) the participant's purchased benefit, if any. Average monthly base salary is the participant's base salary in effect for the month in which the participant's termination of employment, retirement or death occurs and for each of the four preceding anniversaries of such month, divided by five. Credited service begins six months after the date of hire, but not earlier than September 1, 1969. Employees who became participants on or before September 1, 1969 will receive a minimum monthly benefit of $25.

Early retirement may be elected by participants at or after the age of 55 and upon completion of 10 years of credited service. In the case of early retirement, the normal retirement benefit is reduced by multiplying the applicable factor based on the table below. Applicable factors for intermediate ages, determined in years and completed months, are calculated by interpolation.

Attained age at early retirement date	Applicable Factor
55	0.4470
56	0.5023
57	0.5576
58	0.6129
59	0.6682
60	0.7235
61	0.7788
62	0.8341
63	0.8894
64	0.9447

Retirees, if married, are eligible to receive a joint annuity with a 50% annuity to the surviving spouse and, if unmarried, a straight-life annuity. These benefits are intended to be actuarially equivalent at the normal retirement date. Plan members are entitled, upon leaving service, to a vested termination of employment benefit if they have completed four years of continuous service on their termination date. The vested termination of employment benefit is equal to the normal retirement benefit earned to the termination date, which is payable beginning on the normal retirement date (unless the present value of such benefit is $3,500 or less, in which case the benefit is paid in a single lump sum upon termination), multiplied by the vested percentage as determined in the table below. Such terminated participants may take a reduced monthly benefit based upon the early retirement schedule above.

Number of completed years of continuous service at date of termination	Vested percentage
Less than 4 years	0%
4 but less than 7 years	30
7 but less than 10 years	60
10 years or more	100

Death Benefits

In the event a Plan member dies prior to his retirement date, and he is not eligible for a surviving spouse benefit, his designated beneficiary will receive a single sum cash payment equal to his participant contributions, if any, plus credited interest on such contributions. If a married participant dies, while employed, on or after the date he has completed at least 10 years of continuous service, but prior to his retirement date, his spouse will receive a benefit equal to the monthly life annuity which would have been payable to his spouse had the participant retired on the day immediately preceding his death and had he elected a joint and 50% survivor annuity option. If a participant dies on or after his retirement date, the death benefit, if any, will be determined in accordance with the participant's election, or if no election has been made, in accordance with the preceding described death benefit, as applicable. In addition, a single sum cash payment equal to $400 is payable to his beneficiary upon the death of the participant.

Termination

The Plan may be amended, altered or modified, or a successor plan may be adopted at any time with the consent of the District or its successor in interest. In the event of termination, the net assets will be allocated based on the order of priority prescribed in the Plan. The extent to which a particular participant's accumulated benefits will be paid depends on the priority of those benefits at that time. Some nonvested benefits may be fully or partially provided for by the then existing assets, while other benefits may not be provided for at all.

Contributions

Plan members are not required to make contributions to the Plan after December 31, 1984. The District is required to make contributions at an actuarially determined rate. Contribution requirements of the Plan members and the Company are established and may be amended by the District's Board. Administrative costs of the Plan are financed through investment earnings.

Targeted Reduction Incentive Program

In November 1995, the Board of Directors authorized the Targeted Reduction Incentive Program (TRIP) offered to all employees with at least four years of continuous active service. Each participant who was actively employed on February 1, 1996 and who (a) was eligible to retire or (b) had completed at least four years of continuous service, but was not otherwise eligible for early retirement was entitled under TRIP to receive either a retirement benefit or termination benefit.

Each eligible participant who elected to retire under TRIP ((a) above) is entitled to receive a monthly retirement benefit equal to the retirement benefit which would otherwise be payable to the participant as of February 1, 1996, except that such eligible participant will be credited with three years of credited service in addition to the years of credited service earned as of February 1, 1996 (not to exceed 30 years of credit service). Each eligible participant who elected to terminate his employment under TRIP ((b) above) will receive the termination benefit which would otherwise be payable to the participant as of February 1, 1996, except that the participant will be credited with three years of continuous service and three years of credited service in addition to the years of continuous and credited service earned as of February 1, 1996. Additionally, and solely for the limited purpose of TRIP, such eligible participant may elect to receive, in lieu of the vested deferred monthly annuity payable at the participant's normal retirement date, the actuarially equivalent value of such annuity immediately in a single sum, as defined.

The District and Plan actuaries have estimated the cost of the additional contributions required for the retirement and termination effects of TRIP at $1,800,000. This amount has been included as a liability in the accompanying combined balance sheet and as a contribution receivable in the Plan statement of position. Total benefits payable related to TRIP were calculated by the actuaries at $16,906,523 and have been included as a liability in the Plan financial statements.

Funding Progress and District Contributions

The following table summarizes the status of funding progress based on the actuarial valuations performed as of the dates indicated (dollar amounts in thousands):

Actuarial valuation date (December 31)	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL) - entry age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded ratio	(c) Covered payroll	((b-a)/c) UAAL as a percentage of covered payroll
1996	$ N/A	N/A	N/A	N/A	$ 48,080	N/A
1995	21,249	22,645	1,396	93.84 %	47,046	2.97 %
1994	30,405	29,356	(1,049)	103.57	44,152	(2.38)
1993	26,739	26,663	(76)	100.29	44,158	(0.17)
1992	31,845	25,412	(6,433)	125.31	41,460	(15.52)
1991	29,711	23,796	(5,915)	124.86	38,098	(15.53)
1990	26,670	22,089	(4,581)	120.74	33,683	(13.60)
1989	25,606	20,510	(5,096)	124.85	29,945	(17.02)
1988	23,501	16,360	(7,141)	143.65	26,533	(26.91)
1987	20,932	16,262	(4,670)	128.72	27,748	(16.83)
1986	$ 18,411	13,070	(5,341)	140.86	$ 25,582	(20.88)

The following table summarizes employer contributions required (based on the actuarial valuations) and contributions made for the years indicated

Year ended December 31	Annual required contribution	Annual required contribution as a percentage of covered payroll	Percentage contributed
1996	$ 3,794,736	7.89 %	100%
1995	5,521,343[1]	11.74	100
1994	3,419,945	7.75	100
1993	3,117,954	7.06	100
1992	2,588,943	6.24	100
1991	2,447,375	6.42	100
1990	2,374,440	7.05	100
1989	1,986,488	6.63	100
1988	1,991,664	7.51	100
1987	1,841,371	6.64	100
1986	$ 1,778,683	6.95	100

The information presented in the preceding tables was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 1996
Actuarial cost method	Entry age normal cost
Amortization method	Level percent closed
Asset valuation method	Contract value (approximates market value)

Actuarial assumptions:

Investment rate of return[2]	7.25%
Projected salary increases[2]	4.50%
Includes inflation at[2]	1.50%
Cost-of-living adjustments	None

N/A - Not available

1. Includes contribution for TRIP.
2. Contributions were made in accordance with actuarially determined contribution requirements.

(10) 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.

(11) 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, 1996 and 1995, the District accrued $1,869,500 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, 1996 and 1995, the District's management accrued $15,997,500 and $13,815,000, respectively, for estimated claims. Such amounts have been included in other accrued expenses in the accompanying combined balance sheets for 1996 and 1995, 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
1997	$ 5,272,000	9,188,000	14,460,000
1998	5,272,000	9,188,000	14,460,000
1999	5,272,000	9,188,000	14,460,000
2000	5,272,000	9,187,000	14,459,000
2001	5,272,000	9,187,000	14,459,000
Thereafter	61,301,000	156,179,000	217,480,000
	$ 87,661,000	202,117,000	289,778,000

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:

1997	$	35,460,000
1998		35,460,000
1999		35,460,000
2000		35,460,000
2001		35,460,000
Thereafter		35,460,000
	$	212,760,000

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 by the District 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 $8,207,723 and $8,886,633 in 1996 and 1995, 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 9 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 300 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 $1,470,000 and $1,274,000 for 1996 and 1995, respectively.

(12) 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 1996 and 1995, the District received $10,910,154 and $11,237,754, respectively, as reimbursement for approved capital costs. Cumulative payments received total approximately $116,861,548 and $108,720,909 at December 31, 1996 and 1995, 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.

(13) 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.

(14) Salton Sea Authority

The District is a member of the Salton Sea Authority (Authority), a joint powers authority formed in 1993 for the purpose of working with the State of California, the Federal Government and the Republic of Mexico in the development of programs to ensure continued beneficial uses of the Salton Sea. These beneficial uses include its primary purpose as a depository for agricultural drainage, stormwater and wastewater flows, together with protection of endangered species, fisheries, water fowl and recreation. The Authority has undertaken, or expects to undertake, projects, either singularly or in cooperation with other agencies, which may relate to:

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

The Authority consists of the District, the Coachella Valley Water District, and the counties of Imperial and Riverside, each of which appoints two voting members to the Authority's Board of Directors. In order to assist in coordinating the duties and activities of the Authority with other governmental entities, the following have been established as ex-officio (nonvoting) members of the Authority:

- **Imperial Valley Association of Governments**
- **Coachella Valley Association of Governments**
- **Southern California Association of Governments**
- **California State Secretary of Resources**
- **California Department of Fish and Game**
- **United States Bureau of Reclamation**
- **Torres-Martinez Indians.**

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 combined financial statements, are expensed as incurred. Financial statements of the Authority can be obtained from the County of Riverside Executive's Office.

IMPERIAL IRRIGATION DISTRICT

External Affairs Department

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