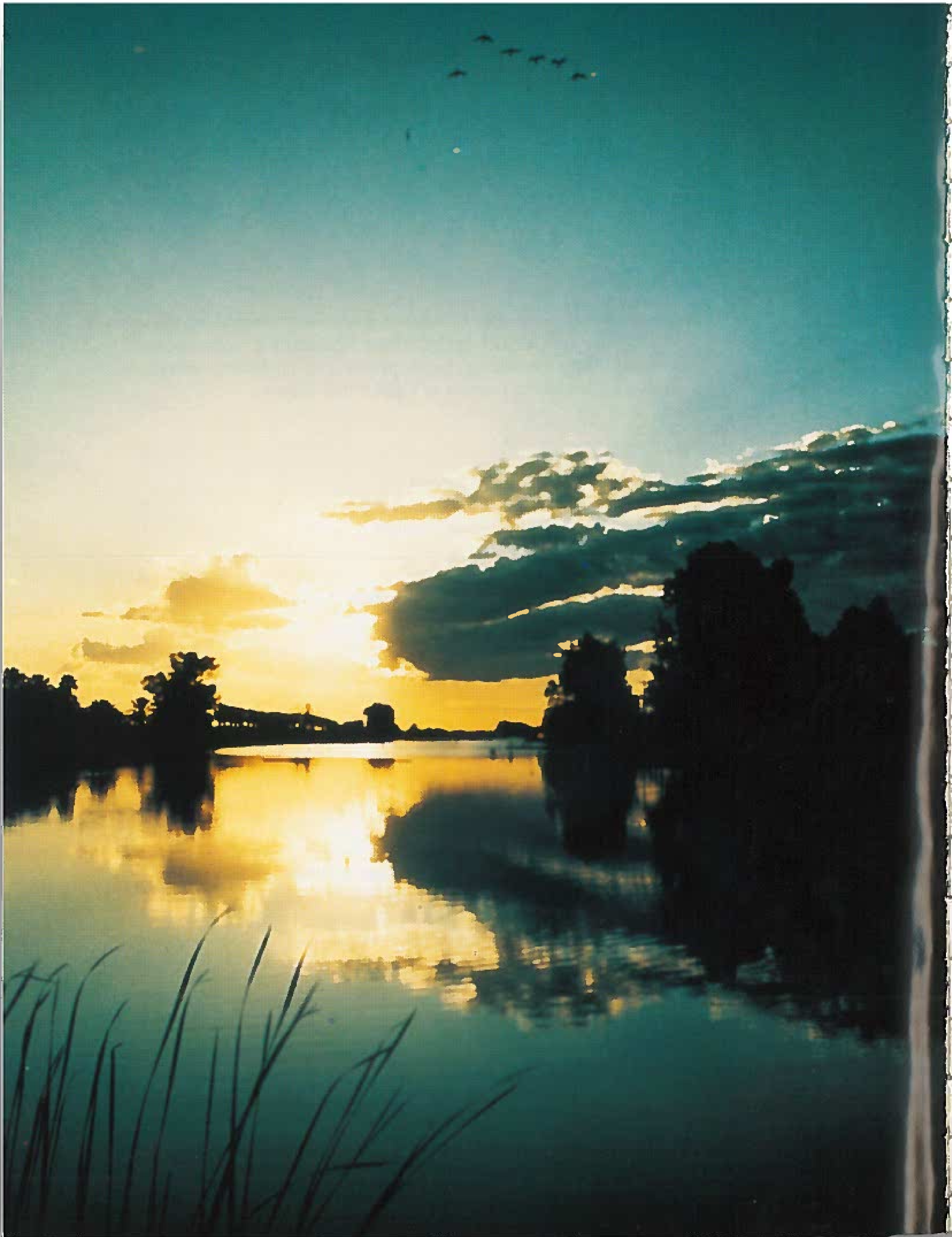
deregulation — water transfer

Imperial Irrigation District
1997 Annual Report

The **Imperial Irrigation District** is a community-owned utility, providing electric power and irrigation water to the lower southeastern portion of California's desert.



1997 HIGHLIGHTS

This past year was filled with many changes that will undoubtedly influence the way the Imperial Irrigation District conducts business in the years ahead. The historical events of 1997 have set the pace and paved the road for future decisions in water and power.

Water Transfer

On December 11, 1997, the Imperial Valley/San Diego Water Conservation and Transfer Agreement was released for public review. A cornerstone for the California 4.4 plan to reduce the state's Colorado River water use, this landmark agreement would allow up to 200,000 acre-feet of water conserved by IID to be transferred to the San Diego County Water Authority for use in its service area. This agreement will protect IID's water rights, increase its already high water use efficiency and bring new capital to its community, while maintaining agriculture as the driving force of its economy. Established in 1911, IID's water department delivers water to 500,000 acres of Imperial Valley farmland through 1,675 miles of canals. Ninety-eight percent of that transported water is for agricultural use in the Imperial Valley. IID is currently the largest irrigation district in the nation and Imperial County ranks among the top ten agricultural counties in the nation.

Deregulation

As the stage is set for deregulation of the California electric power industry, IID is preparing to enter this new and challenging competitive era. The district is working aggressively to cut costs and improve service to its customers to further secure its position when open competition starts. Beginning March 1998, deregulation of California's electric utility industry will begin giving customers of investor-owned utilities the opportunity to choose their energy supplier. IID, a community-owned utility, has not yet opened to direct access. Currently, the district ranks as the sixth largest electric utility in California based on power consumption.

Salton Sea

Restoration efforts for the Salton Sea are being led by the Salton Sea Authority, of which the IID is a member. Secretary of the Interior Bruce Babbitt met with the Salton Sea Authority on December 17, 1997, and announced cooperative efforts his department will undertake with the Salton Sea Authority. The Salton Sea Congressional Task Force, in conjunction with the Salton Sea Authority, will introduce legislation to clean up the sea.

GENERAL MANAGER'S REVIEW

Throughout 1997, the district advanced in many areas. We've been diligent water users, improving our already efficient irrigation system and conserving water now being used by other California agencies. A proven leader in water conservation, IID will continue these efforts to conserve water in the years ahead.

Prior to 1988, IID, its farmers and conservation partner, Metropolitan Water District of Southern California (MWD), invested approximately $613 million (1996 dollars) on water conservation measures which yield up to 630,000 acre-feet of conserved water annually. Our conservation program with MWD now yields 100,000 acre-feet of water saved annually in the agricultural Imperial Valley and makes it available for use in urban areas of Southern California. The water is conserved through substantial improvements made to IID's irrigation delivery system which includes concrete lining of canals, constructing new reservoirs and interceptor canals, installing nonleak gates and installing on-farm tailwater recovery systems.

The water transfer agreement with the San Diego County Water Authority has reached its final phase of development for the transfer of up to 200,000 acre-feet of conserved water annually. When signed, this historic agreement will protect our water rights and farmland, and will economically benefit our valley as a whole. We believe this final agreement with San Diego will provide many advantages and opportunities to Imperial Valley, San Diego and California as we all work to live within our Colorado River water entitlement.

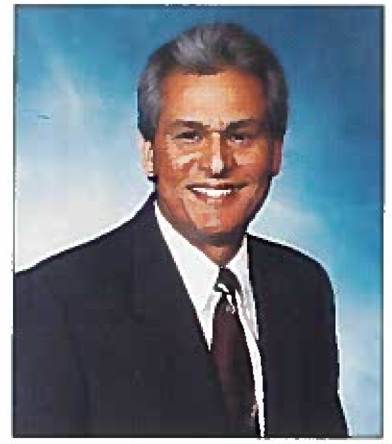
We welcome deregulation of California's electric utility industry as an inevitable milestone in the move toward more competition and less regulation in many industries. To prepare for this new era of competition, we are concentrating our efforts on reducing operating costs and reducing expenses.

Since the end of 1994, full-time staffing has been reduced from 1,186 to 1,070 but the quality of service delivered to IID's water and power customers has remained high. Even though this has placed new burdens on IID employees, it has provided new opportunities as well. As we embrace a new year in water and power, I'd like to express my gratitude to all employees for their hard work, dedication and loyalty. Change is upon us, and working together as a team today ensures a bright future for all of us.

Michael J. Clinton

Michael J. Clinton
General Manager

MANAGEMENT PERSONNEL



Jesse P. Silva
Deputy General Manager

Kristine K. Fontaine
Finance & Accounting

Eldon L. Moore
Water Department

Ron E. Cox
Power Department

Darryl L. Croft
Human Resources

Paul M. Cunningham
External Affairs

LETTER FROM THE BOARD PRESIDENT

IID faced some tough decisions this year and worked through an open public process on some serious water issues. Arizona has placed the lower Colorado River water users in a very difficult situation by diverting 700,000 acre-feet of water that the Metropolitan Water District and Coachella Valley Water District have been using to meet much of their needs. If something isn't done by the time the river returns to "normal flow" conditions, both these water agencies could experience severe water shortages. Although the IID boasts high efficiencies, both on-farm (79%) and system (90%), we continue to be scrutinized because we are the largest water user on the river.

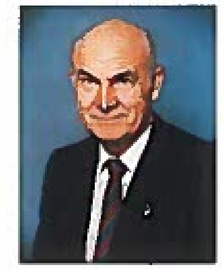
We need to work jointly with the U.S. Bureau of Reclamation (Bureau) and Coachella on solving current water issues. The California 4.4 Plan is an ongoing effort by Southern California water agencies to agree to steps to get California to live within its yearly Colorado River allotment of 4.4 million acre-feet. This plan seeks to generate 700,000 to 900,000 acre-feet of water a year from California agricultural agencies to assure a full supply for the Colorado River Aqueduct, which supplies water to urban Southern California. The water transfer agreement with San Diego is expected to aide this effort, as well as lining the All-American and Coachella canals and programs with Palo Verde. Currently we are working with the Bureau, helping them to better understand our beneficial use of water. We have offered two proposals to Coachella which would provide them a firm water supply and hopefully settle our differences.

With much determination, IID is making every effort to ensure our water rights are protected. One such way is through a water transfer program which brings money in from the coast necessary to fund the expensive conservation projects that would make us more efficient. This program will reduce the pressures for the development of new water sources in California.

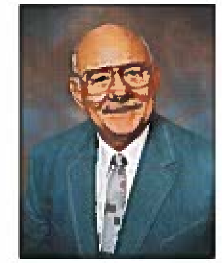
Donald H Cox

Donald H. Cox
President
IID Board of Directors

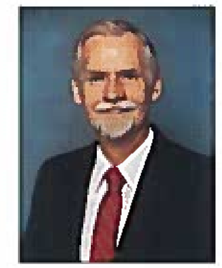
BOARD OF DIRECTORS



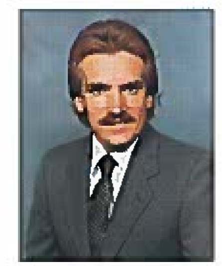
Donald H. Cox – President
Division 4
Don Cox has served on the board for nine years.
In addition, he also serves as vice chairman of the Salton Sea Authority, chairman of the California Farm Water Coalition and is a member of the Regional Water Quality Control Board. He owns a diversified farming business in Brawley.



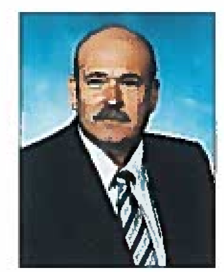
Lloyd Allen – Vice President
Division 3
Lloyd Allen has served on the board for 11 years.
He has served as director of farm, civic and business organizations and is a member of the Colorado River Board. Lloyd has a background in the hardware business and in agriculture and he owns a northern Imperial Valley farming operation.



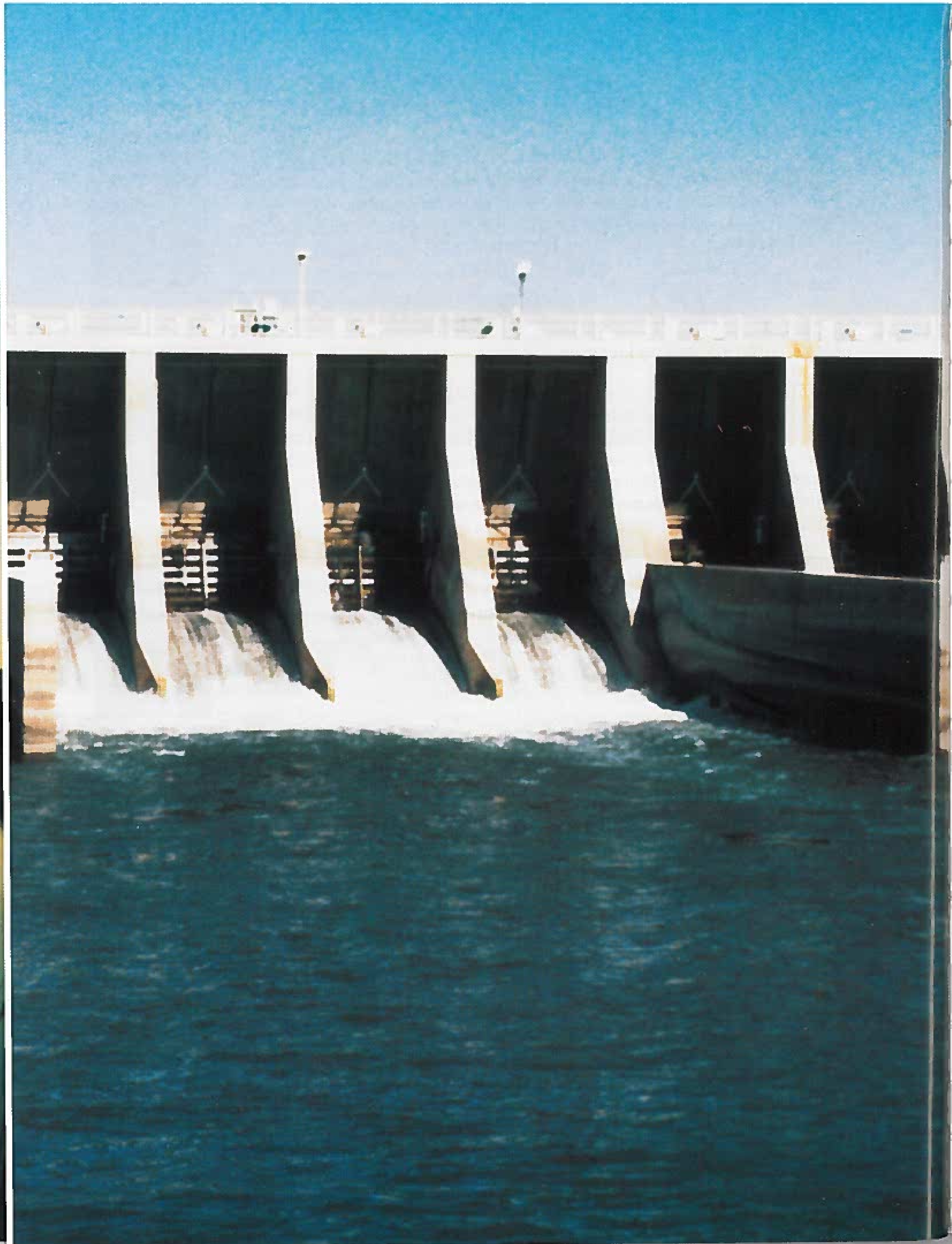
William R. Condit
Division 1
William Condit has served on the board for 19 years.
He served as president of the board and as a negotiator for the historic IID/MWD water conservation and transfer agreement. He is a member of the Southern California Water Committee and has many years of local business experience and community involvement.



Ralph M. Menvielle
Division 5
Ralph Menvielle has served on the board for eight years.
He serves as an alternate member of the Colorado River Board and has served as president of the board and president of the Imperial County Farm Bureau. Currently he serves on the State Agricultural Water Conservation Task Force. He owns Menvielle Hay Company and Quality Scales in the Imperial Valley.



Bruce R. Kuhn
Division 2
Bruce Kuhn is the newest member of the board, elected in 1997.
He serves on the Salton Sea Advisory Board and owns a local land leveling business in the Imperial Valley.



WATER TRANSFER AGREEMENT

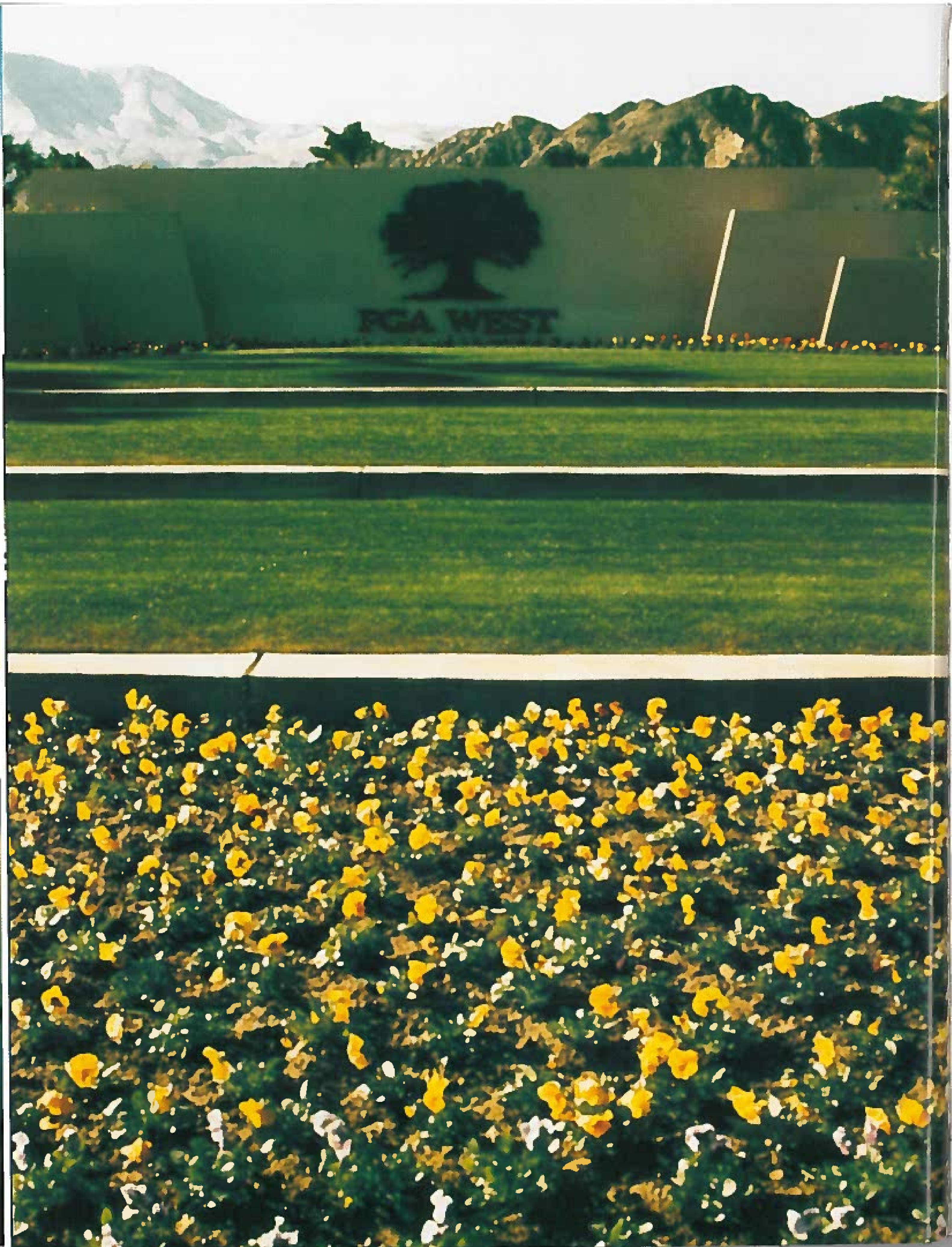
The Imperial Valley/San Diego Water Conservation and Transfer Agreement was released for public review on December 11, 1997. This historic agreement will allow conserved agricultural water from Imperial Valley to be transferred to the urban San Diego area. This agreement provides for a transfer of up to 200,000 acre-feet of conserved water per year for a term of 45 years, with a possible extension of 30 years.

For Imperial Valley, this means protection of its water rights, affordable water conservation and an economic boost. For San Diego, this means a reliable water supply at a competitive, more predictable rate. For California, this means a new water supply substantially reducing reliance on state water project deliveries and helping to resolve disagreements with other Colorado basin states. This agreement is a "win-win" situation for all parties involved.

The 4.4 plan is an ongoing effort by Southern California water agencies for California to agree to live within its yearly Colorado River allotment of 4.4 million acre-feet. The Water Transfer Agreement with San Diego is expected to help these efforts, as well as the lining projects on the All-American and Coachella canals.

The district's water use has been questioned from time to time; however, IID has been labeled one of the most efficient irrigation delivery systems (90 percent efficient) in the United States. As a result of the expenditure of hundreds of millions of dollars, valley farmers have improved on-farm efficiency to approximately 79 percent which is high compared to the statewide goal of 73 percent.

IID participates quarterly in the Adopt-A-Highway program. This community service event involves employees who volunteer time to clean up a portion of highway near the IID headquarters. Plenty of sunshine and teamwork help make this program an ongoing success.



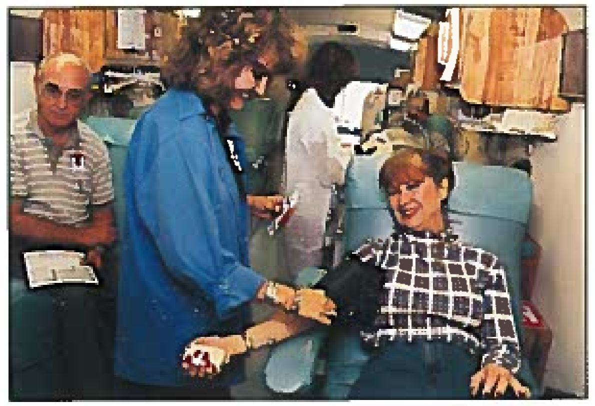
COACHELLA VALLEY WATER DISTRICT PROPOSAL

IID's proposed agreement with Coachella Valley Water District (CVWD) brings new hope to resolving disputes over Colorado River water use. This proposal is an important element to the larger issue of how California and the other Colorado Basin states manage and use water. If implemented, this proposal would give Coachella a firm right to Colorado River water and remove subordination of its third priority water. In exchange, CVWD and IID would agree not to challenge each others' water use and share supply risks and surplus in a balanced way. In addition, CVWD would support IID's water conservation and transfer program.

METROPOLITAN WATER DISTRICT WHEELING PROPOSAL

IID has challenged the wheeling rate proposed by MWD. IID has joined the San Diego County Water Authority and other public and private interests in arguing that the proposed wheeling rate was unreasonably high, not in compliance with state law and would hinder water transfers. This is an issue of statewide importance that is not only being litigated but is also the subject of negotiations that are being facilitated by David Kennedy, the director of the California Department of Water Resources.

Several times each year, IID hosts an employee blood drive. Bloodmobiles park in the employee parking lots, which gives employees the opportunity to donate blood throughout the day. Keeping blood banks full is just one way IID gives back to its local community.



DEREGULATION

In 1998, the California electric utility industry will move into a deregulated market environment. Community-owned utilities such as the Imperial Irrigation District are not expected to participate until around the year 2000; however, IID is planning ahead for competition. The district's ability to reduce costs will be an important factor in the transition and a number of steps in the right direction have already been taken. Paying down debt, rescheduling capital projects, decreasing staff through early retirement programs and reducing overhead costs were all begun in 1997.

Fortunately, the district is in the advantageous position of having rates that are already low. Even with the investor-owned utilities' ten percent rate reduction, those rates are still going to be higher than IID's current rates. In addition, the IID will be introducing a low-income electric rate, which would allow qualified customers to save approximately ten percent per month. Details of this program will be unveiled in 1998. Early preparation and planning will help to ensure IID is ready for the competitive nature of deregulation.

Each year the Imperial Valley plays host to the California Midwinter Fair. As a sponsor of this community event, IID employees help judge 4-H electrical projects entered in the fair.

SALTON SEA

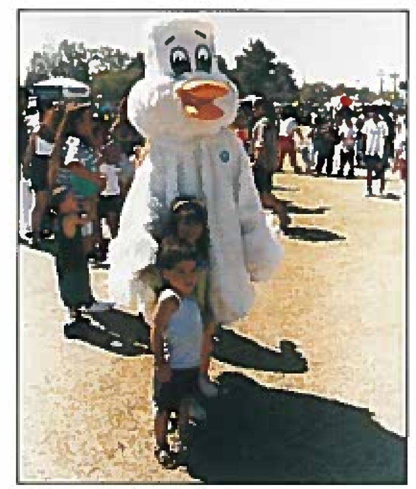
The Salton Sea is very important to IID because it serves as our drainage reservoir as well as an important wildlife resource and critical link in the Pacific Flyway for migratory birds. However, over the years the Salton Sea, California's largest lake, has grown saltier because it has no outlet for water other than evaporation. The sea is currently 25 percent saltier than ocean water and, if the salinity level isn't controlled, the viability of the sea for wildlife and recreation will continue to diminish. Massive fish and bird die-offs at the sea have recently focused nationwide attention on its growing problems. In 1996, 1,500 endangered brown pelicans and 15 percent of the Western U.S. population of white pelicans died at the sea.

For many years the Imperial Irrigation District and the Salton Sea Authority have been cooperating with the counties of Imperial and Riverside and the Coachella Valley Water District to address the vital issues of salinity and elevation that the sea faces.

In December 1997, Interior Secretary Bruce Babbitt visited the 380-square-mile Salton Sea and announced a coordinated effort to start an engineering and environmental review of proposed solutions to restore the sea. The Salton Sea Congressional Task Force is working with the Salton Sea Authority to pass legislation to clean up the Salton Sea.

The Salton Sea is of great economic and environmental value in a local, national and international sense, but is in need of much serious and immediate attention. IID will continue to play an integral role in the efforts to revitalize the sea.

Hundreds of children gather at the annual Children's Fair in El Centro. Dippy Duck, IID's water safety mascot, warns children about the dangers of playing in or around canals.



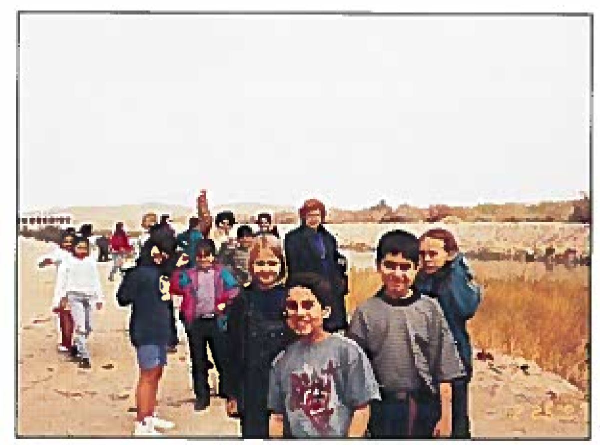
NEW RIVER

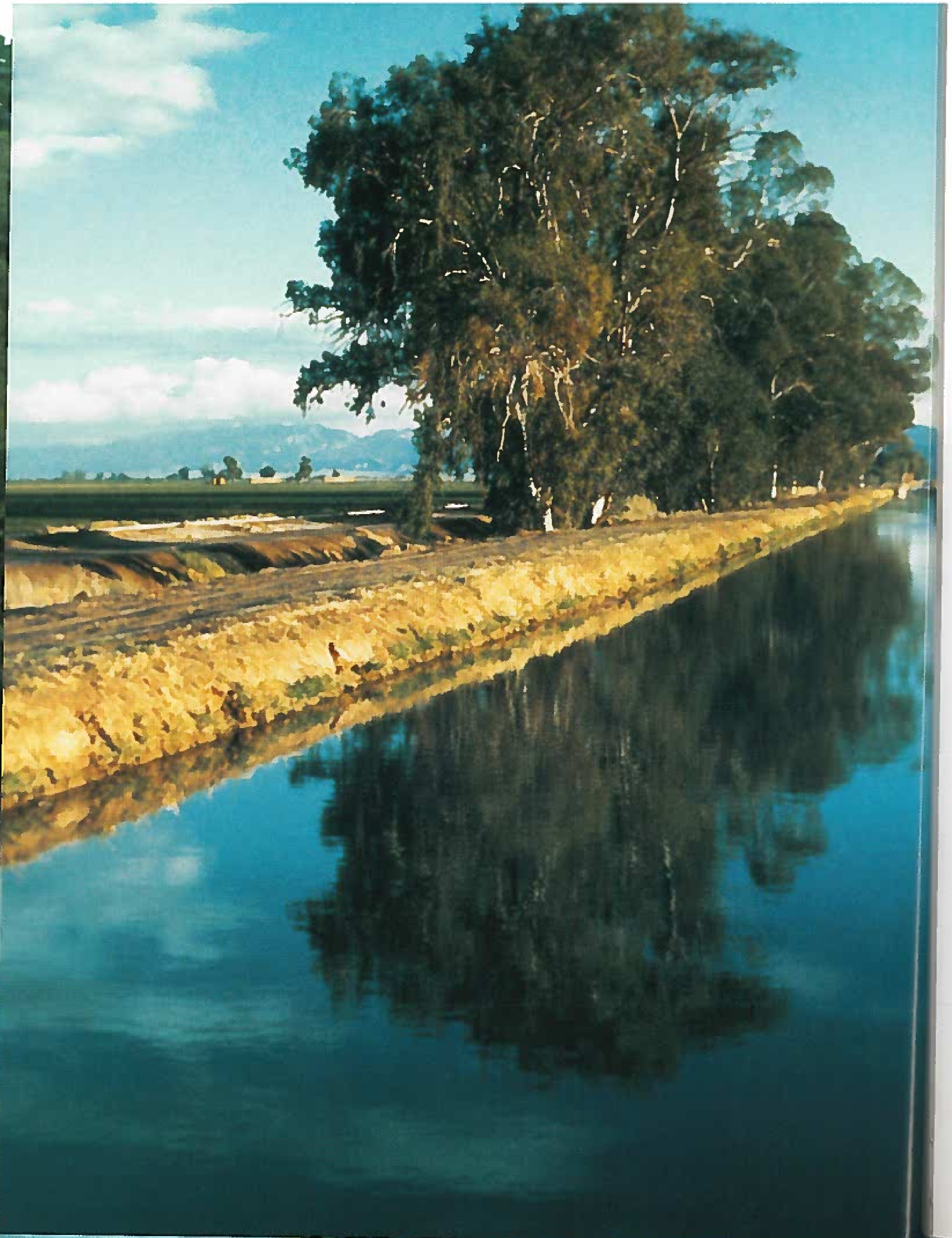
This past year brought new hope for the New River, one of the most polluted waterways in North America. This river begins in Mexicali and snakes its way through the Imperial County, emptying into the Salton Sea. The river is highly polluted when it crosses the border with raw and partially treated sewage and industrial waste from Mexicali.

Approximately $7 million in "quick-fix" projects were completed in 1997 to improve Mexicali's overburdened sewage treatment system. In addition, another $50 million was spent in projects to upgrade Mexicali's existing wastewater treatment plant and to build a new one on the city's industrial east side. The new plant was certified in December 1997 by a U.S.-Mexico commission. The certification moves these projects one step closer to getting $26 million in U.S. funding. Mexico would pay for the rest of the work, expected to take about three years to finish.

The Imperial Irrigation District plays a critical role in ongoing efforts to clean up the New River, greatly improve its water quality and create wildlife habitat in the Imperial Valley. The agricultural drain water that is added to the New River by the district dilutes and improves the water quality of the river as it moves northward to the Salton Sea.

IID works closely with elementary schools throughout the Imperial Valley. As a supporter of local education, IID provides tours and field trips to Imperial Dam and other local facilities.





TROPICAL STORM NORA

Tropical Storm Nora, with its high winds, surged through the Imperial Valley in October 1997 causing major localized flooding, breaks in lateral and main canals, as well as damaging transmission and distribution lines. This storm caused an estimated $4 million in crop damage, mostly for replanting sugar beets and vegetables.

As a result of the storm, scattered power outages affected customers throughout the valley. No major power lines were affected for significant lengths of time and IID's electric system remained stable and fully operational. IID prides itself on an effective response team which is always ready to handle emergencies at a moment's notice.

IID continues its annual sponsorship of the Salton Sea International Bird Festival. Hundreds of bird watchers turn out for a weekend filled with sunshine and an amazing abundance of bird life.

IMPROVED EFFICIENCY AND EFFECTIVENESS

Employee Team Building

The team building process has been a driving force behind IID's increased efficiency and will continue to be an integral part of IID's bright future. The team building process has allowed groups of employees the opportunity to brainstorm ideas and find creative ways to improve processes and save money. Fifty teams have now been formed, and the program has been a huge success.

9/80 Work Schedule

This idea originated from an employee team, and saved the district over $1 million in 1997. This alternate work schedule, which allows employees to put in 80 hours of work in nine days with every other Friday off, is just one way the district saves millions of dollars annually. This idea cuts operating costs dramatically without reducing customer service and has been very well received by district employees.

Exit Program

On October 14, 1997, the IID Board of Directors approved the Executive Incentive Target Program (EXIT), a voluntary retirement option for full-time executive level employees. This program has enabled the district to flatten the current "top-heavy" management structure by not replacing these positions but reassigning duties to the remainder of the management staff. This program will enable the district to save approximately $2 million annually in preparation for deregulation of the power industry and the current changes occurring in the water industry.

Reorganization of the Power Department

In early 1998, IID will reorganize its power department in anticipation of upcoming changes in the power industry. This reorganization will transform a 440-employee-strong power department from a geographically-based structure to a functionally-based, customer-oriented organization. These changes will remove layers of decision making in the power department and ultimately make the IID more responsive to its customers. Part of this change will include the formation of a new Customer Service Section. IID entered the power business in 1936 and today serves power to more than 89,000 customers in the Imperial Valley and parts of Riverside and San Diego counties.

YOUNG RESERVOIR DEDICATION

On March 20, 1997, a ceremony was held dedicating the Young Reservoir to the Young family whose name was chosen in recognition of their contributions to the Imperial Valley during three generations of farming.

W. E. Young Sr. located to the Imperial Valley in 1910 and worked on the East Highline Canal project as a foreman for Walker Construction Company. Young briefly farmed in the Rockwood area and then bought land west of Calipatria, enlarging his farmland holdings over the years. He served on the IID Board of Directors from 1932-1936.

W. E. Young Jr. attended college at USC, served in the military during World War II and then assumed management of the family ranch in 1946. He served on the Calipatria School Board for 12 years, on the County Agricultural Stabilization Conservation Committee, as well as serving on the California State ASC Committee. In addition, Young Jr. was a longtime member of the Cal-Cot Board of Directors.

Frederick Moore Young attended Calipatria schools and graduated from Cal Poly, San Luis Obispo. He farmed independently, and recently assumed management of the family farming operation.

The 275-acre-foot Young Reservoir was constructed as part of the Mulberry-D Lateral Interceptor Project under the 1988 IID/MWD Water Conservation Program Agreement. The Mulberry-D Lateral Interceptor is approximately 8.25 miles long and catches operational discharge at the ends of 11 lateral canals serving 31,000 acres of farmland. The reservoir is located at the end of the interceptor canal to store water for downstream users. This project conserves about 7,650 acre-feet of water annually.

Pictured left to right: Board Director Lloyd Allen, Board President Don Cox, Monica Lori Russell Young, Frederick Moore "Rick" Young, W.E. Young Jr., Betty Joan Moore Young, Gina Nicole Young and William Russell Young dedicate a new reservoir.

DISTRICT OFFICES

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El Centro Power Division
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El Centro, CA 92243
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Holtville Power/Water Division
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La Quinta Power Division
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La Quinta, CA 92253
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North End Water Division
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River Water Division
2400 Imperial Road
Winterhaven, CA 92283
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Southwest Water Division
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El Centro, CA 92243
Phone (760) 339-9800

Western Water Division
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Phone (760) 339-0764

financial highlights

INDEPENDENT AUDITOR'S REPORT

KPMG Peat Marwick LLP
725 So. Figueroa Street
Los Angeles, CA 90017

Calderon, Jaham & Osborn
1236 State Street
El Centro, CA 92243

The Board of Directors
Imperial Irrigation District:

We have audited the accompanying combined balance sheets of Imperial Irrigation District (District) as of December 31, 1997 and 1996 and the related 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. 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 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, 1997 and 1996 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Calderon, Jaham + Osborn

February 27, 1998

COMBINED BALANCE SHEETS
December 31, 1997 & 1996

Assets		1997 Water Department	1997 Power Department	1997 Combined	1996 Water Department	1996 Power Department	1996 Combined
Current assets:							
Cash & investments *(note 2)*	$	5,092,659	4,742,993	9,835,652	—	2,130,711	2,130,711
Receivables:							
Trade		5,685,731	15,618,328	21,304,059	6,175,149	15,052,196	21,227,345
Interest		296,189	2,517,532	2,813,721	106,334	1,615,760	1,722,094
Other		1,480,906	2,119,968	3,600,874	3,357,593	2,741,037	6,098,630
		7,462,826	20,255,828	27,718,654	9,639,076	19,408,993	29,048,069
Less allowance for doubtful accounts		(108,278)	(3,627,719)	(3,735,997)	(219,718)	(3,414,346)	(3,634,064)
Net receivables		7,354,548	16,628,109	23,982,657	9,419,358	15,994,647	25,414,005
Inventories:							
Fuel oil		—	2,731,944	2,731,944	—	2,875,126	2,875,126
Materials & supplies		622,974	8,074,204	8,697,178	585,613	8,186,889	8,772,502
Total inventories		622,974	10,806,148	11,429,122	585,613	11,062,015	11,647,628
Prepaid expenses & deferred charges		625,480	2,287,707	2,913,187	908,197	2,769,949	3,678,146
Total current assets		13,695,661	34,464,957	48,160,618	10,913,168	31,957,322	42,870,490
Cash & investments, restricted as to use & allocated for *(note 2)*:							
Debt service		2,485,456	24,851,546	27,337,002	2,319,407	24,654,671	26,974,078
Construction		17,408,671	55,240,174	72,648,845	15,379,628	51,728,962	67,108,590
Self-insurance		15,446,000	2,800,000	18,246,000	16,246,000	2,821,000	19,067,000
Employee-deferred compensation *(note 4)*		9,711,277	9,711,277	19,422,554	8,747,379	8,747,379	17,494,758
Other		3,363,006	7,870,096	11,233,102	1,679,783	18,019,282	19,699,065
		48,414,410	100,473,093	148,887,503	44,372,197	105,971,294	150,343,491
Utility plant, at cost *(note 3)*:							
Plant in service		316,985,518	782,480,528	1,099,466,046	300,558,674	740,143,819	1,040,702,493
Less accumulated depreciation		(71,639,724)	(253,552,090)	(325,191,814)	(64,585,793)	(233,109,319)	(297,695,112)
		245,345,794	528,928,438	774,274,232	235,972,881	507,034,500	743,007,381
Construction in process		464,043	6,794,405	7,258,448	969,260	11,790,495	12,759,755
		245,809,837	535,722,843	781,532,680	236,942,141	518,824,995	755,767,136
	$	307,919,908	670,660,893	978,580,801	292,227,506	656,753,611	948,981,117

COMBINED BALANCE SHEETS
December 31, 1997 & 1996

Liabilities & District Equity		1997 Water Department	1997 Power Department	1997 Combined	1996 Water Department	1996 Power Department	1996 Combined
Current liabilities:							
Current maturities of long-term debt *(note 5)*	$	1,636,719	13,526,010	15,162,729	1,194,344	12,402,177	13,596,521
Accounts payable		1,864,574	11,216,299	13,080,873	1,830,524	12,217,328	14,047,852
Accrued interest payable		17,422	1,631,058	1,648,480	6,053	1,771,486	1,777,539
Accrued compensation & payroll taxes *(notes 13 & 14)*		2,814,671	3,074,190	5,888,861	1,870,169	1,870,169	3,740,338
Accrued compensated absences *(notes 13 & 14)*		389,934	516,392	906,326	20,749	172,636	193,385
Deferred revenue – water availability charges		3,087,786	—	3,087,786	3,077,176	—	3,077,176
Total current liabilities		9,811,106	29,963,949	39,775,055	7,999,015	28,433,796	36,432,811
Liabilities payable from restricted assets:							
Other accrued expenses, noncurrent portion *(note 11)*		14,346,000	2,000,000	16,346,000	15,646,000	2,221,000	17,867,000
Employee-deferred compensation *(note 4)*		9,711,277	9,711,277	19,422,554	8,747,379	8,747,379	17,494,758
Advances & deposits from customers		218,476	2,280,336	2,498,812	605,007	1,661,934	2,266,941
Refundable to customers		—	3,139,653	3,139,653	—	15,753,459	15,753,459
		24,275,753	17,131,266	41,407,019	24,998,386	28,383,772	53,382,158
Long-term debt *(note 5)*:							
Certificates of participation *(note 6)*		15,938,644	133,463,262	149,401,906	16,471,003	145,315,735	161,786,738
Bonds payable *(note 7)*		1,660,210	—	1,660,210	1,736,591	—	1,736,591
Capital leases *(note 8)*		2,166,468	2,169,913	4,336,381	1,167,261	1,088,871	2,256,132
		19,765,322	135,633,175	155,398,497	19,374,855	146,404,606	165,779,461
Deferred credits & other liabilities:							
Advances for construction		—	7,370	7,370	—	10,186	10,186
Accrued vacation & sick leave, noncurrent portion *(notes 13 & 14)*		2,801,208	1,900,478	4,701,686	2,672,353	1,826,929	4,499,282
		2,801,208	1,907,848	4,709,056	2,672,353	1,837,115	4,509,468
Total liabilities		56,653,389	184,636,238	241,289,627	55,044,609	205,059,289	260,103,898
District equity:							
Contributions in aid of construction		110,801,883	25,347,967	136,149,850	100,177,748	26,711,077	126,888,825
Retained earnings		140,464,636	460,676,688	601,141,324	137,005,149	424,983,245	561,988,394
Total District equity		251,266,519	486,024,655	737,291,174	237,182,897	451,694,322	688,877,219
	$	307,919,908	670,660,893	978,580,801	292,227,506	656,753,611	948,981,117

See accompanying notes to combined financial statements.

COMBINED STATEMENTS OF INCOME
Years ended December 31, 1997 & 1996

	1997			1996		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Operating revenues:						
Power sales	$ —	197,305,591	197,305,591	—	189,231,800	189,231,800
Water sales	36,460,416	—	36,460,416	36,716,934	—	36,716,934
Water availability charge	2,959,731	—	2,959,731	2,951,788	—	2,951,788
Interdepartmental charges *(note 10)*:						
Use of All-American Canal	3,759,000	(3,759,000)	—	3,731,000	(3,731,000)	—
Power sales	(572,175)	572,175	—	(410,313)	410,313	—
Heber-Mirage transmission credits *(note 11)*	—	2,471,953	2,471,953	—	8,207,723	8,207,723
Wheeling charge	—	7,216,919	7,216,919	—	1,322,005	1,322,005
Other	—	625,499	625,499	—	744,252	744,252
	42,606,972	204,433,137	247,040,109	42,989,409	196,185,093	239,174,502
Operating expenses:						
Purchased power	—	96,799,856	96,799,856	—	88,708,832	88,708,832
Cost of fuel	—	12,440,992	12,440,992	—	12,159,986	12,159,986
Other power expenses	—	19,626,206	19,626,206	—	21,183,636	21,183,636
Operation & maintenance of All-American Canal	1,650,464	—	1,650,464	1,936,104	—	1,936,104
Operation & maintenance of irrigation system & dams	19,293,715	—	19,293,715	20,815,928	—	20,815,928
General & administration expense	19,713,281	19,376,448	39,089,729	12,304,914	16,570,957	28,875,871
Provision for depreciation *(note 3)*	6,068,018	21,119,209	27,187,227	5,668,521	20,571,725	26,240,246
	46,725,478	169,362,711	216,088,189	40,725,467	159,195,136	199,920,603
Net operating income (loss)	(4,118,506)	35,070,426	30,951,920	2,263,942	36,989,957	39,253,899
Nonoperating revenues (expenses):						
Interest income	1,696,394	6,328,223	8,024,617	995,040	4,811,171	5,806,211
Interest expense	(1,215,395)	(8,923,068)	(10,138,463)	(416,342)	(9,696,206)	(10,112,548)
Other income	3,050,188	1,957,654	5,007,842	1,072,505	1,080,747	2,153,252
Other expenses	(13,703)	(24,432)	(38,135)	(831)	(16,856)	(17,687)
	3,517,484	(661,623)	2,855,861	1,650,372	(3,821,144)	(2,170,772)
Net income (loss)	$ (601,022)	34,408,803	33,807,781	3,914,314	33,168,813	37,083,127

See accompanying notes to combined financial statements.

COMBINED STATEMENTS OF CHANGES IN DISTRICT EQUITY
Years ended December 31, 1997 & 1996

	Water Department	Power Department	Combined
Retained earnings:			
Balance at January 1, 1997	$ 137,005,149	424,983,245	561,988,394
Net income	(601,022)	34,408,803	33,807,781
Add back depreciation of fixed assets acquired through contributions *(note 3)*	4,060,509	1,284,640	5,345,149
Balance at December 31, 1997	140,464,636	460,676,688	601,141,324
Contributions in aid of construction:			
Balance at January 1, 1997	100,177,748	26,711,077	126,888,825
Contributions received	14,684,644	2,393,483	17,078,127
Heber-Mirage transmission credits *(note 12)*	—	(2,471,953)	(2,471,953)
Less depreciation of fixed assets acquired through contributions *(note 3)*	(4,060,509)	(1,284,640)	(5,345,149)
Balance at December 31, 1997	110,801,883	25,347,967	136,149,850
Total District equity at December 31, 1997	$ 251,266,519	486,024,655	737,291,174
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

See accompanying notes to combined financial statements.

COMBINED STATEMENTS OF CASH FLOWS
Years ended December 31, 1997 & 1996

	1997			1996		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Cash flows from operating activities:						
Operating income (loss)	$ (4,118,506)	35,070,426	30,951,920	2,263,942	36,989,957	39,253,899
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation & amortization *(note 3)*	7,338,807	21,887,017	29,225,824	6,747,425	21,252,857	28,000,282
(Gain) loss on disposal of property	(132,739)	62,613	(70,126)	25,530	130,127	155,657
Heber-Mirage transmission credits *(note 12)*	—	(2,471,953)	(2,471,953)	—	(8,207,723)	(8,207,723)
(Increase) decrease in assets & increase (decrease) in liabilities:						
Trade accounts receivable	489,418	(566,132)	(76,714)	7,018	1,848,477	1,855,495
Other receivables	1,876,687	621,069	2,497,756	(2,670,819)	(1,146,376)	(3,817,195)
Allowance for uncollectible accounts, net	(111,440)	213,373	101,933	49,097	(159,270)	(110,173)
Inventories	(37,361)	255,867	218,506	203,747	2,664,759	2,868,506
Prepaid expenses & deferred charges	257,942	261,798	519,740	(361,019)	(257,673)	(618,692)
Accounts payable	34,050	(1,001,029)	(966,979)	702,193	570,308	1,272,501
Accrued compensation & payroll taxes *(note 14)*	944,502	1,204,021	2,148,523	(1,097,956)	(1,097,956)	(2,195,912)
Accrued compensated absences *(note 14)*	498,040	417,305	915,345	(1,681)	(772,633)	(774,314)
Deferred revenues	10,610	—	10,610	(1,845)	—	(1,845)
Other accrued expenses	(1,300,000)	(221,000)	(1,521,000)	(300,000)	—	(300,000)
Employee deferred compensation *(note 5)*	963,898	963,898	1,927,796	910,273	910,273	1,820,546
Refundable to customers	—	(12,613,806)	(12,613,806)	—	(347,952)	(347,952)
Total adjustments	10,832,414	9,013,041	19,845,455	4,211,963	15,387,218	19,599,181
Net cash provided by operating activities	6,713,908	44,083,467	50,797,375	6,475,905	52,377,175	58,853,080
Cash flows from noncapital financing activities – other nonoperating income	3,036,485	1,933,222	4,969,707	1,071,674	1,063,891	2,135,565
Cash flows from investing activities:						
Interest received	1,506,539	5,426,451	6,932,990	1,175,201	4,285,082	5,460,283
(Purchases) sales of investments, net	(6,597,803)	7,635,874	1,038,071	(12,114,390)	4,631,187	(7,483,203)
Net cash provided by (used in) investing activities	(5,091,264)	13,062,325	7,971,061	(10,939,189)	8,916,269	(2,022,920)

(Continued)

COMBINED STATEMENTS OF CASH FLOWS, Continued

	1997			1996		
	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)*	(1,360,285)	(12,597,252)	(13,957,537)	(508,016)	(11,601,014)	(12,109,030)
Interest paid on long-term debt, excluding interest capitalized of $667,900 in 1997 & $490,900 in 1996	(1,171,610)	(8,184,889)	(9,356,499)	(412,948)	(8,949,593)	(9,362,541)
Capital expenditures	(14,095,245)	(36,982,585)	(51,077,830)	(18,633,644)	(39,482,795)	(58,116,439)
Proceeds from sale of property	206,967	423,782	630,749	182,063	295,976	478,039
Increase (decrease) in advances & deposits	(386,531)	618,402	231,871	239,229	122,600	361,829
Additions to contributions in aid of construction	14,684,644	2,393,483	17,078,127	7,961,438	2,169,032	10,130,470
Net cash provided by (used in) capital financing activities	(2,122,060)	(54,329,059)	(56,451,119)	5,279,806	(57,445,794)	(52,165,988)
Net increase in cash & cash equivalents	2,537,069	4,749,955	7,287,024	1,888,196	4,911,541	6,799,737
Cash & cash equivalents at beginning of year	16,404,150	22,878,268	39,282,418	14,515,954	17,966,727	32,482,681
Cash & cash equivalents at end of year	$ 18,941,219	27,628,223	46,569,442	16,404,150	22,878,268	39,282,418
Cash & cash equivalents	$ 18,941,219	27,628,223	46,569,442	16,404,150	22,878,268	39,282,418
Investments	34,565,850	77,587,863	112,153,713	27,968,047	85,223,737	113,191,784
Total cash & investments	$ 53,507,069	105,216,086	158,723,155	44,372,197	108,102,005	152,474,202

Significant non-cash investing and financing activities:

The District acquired operating and computer equipment through the issuance of capital leases in the Water Department of $2,185,485 and $1,040,433 and in the Power Department of $2,291,491 and $576,646 during the year ended December 31, 1997 and 1996, respectively.

On July 16, 1996, the District's Water Department issued $17,100,000 of 1996 Revenue Certificates of Participation (1996 Water System Project). The District received net proceeds of $16,451,684 net of original issue discount of $152,817 and payment of costs of issuance through escrow of $495,499.

The District includes accretion on capital appreciation certificates and amortization of original issue discount (premium) and costs of issuance on its certificates of participation in interest expense. During 1997 and 1996, the Water Department included amortization of original issue discount of $7,641 and $3,820 and amortization of costs of issuance of $24,775 and $12,387, respectively. During 1997 and 1996, the Power Department included accretion on capital appreciation certificates of $555,060 and $517,989, amortization of original issue discount (premium) of $103,103 and $103,103 and amortization of costs of issuance of $220,444 and $220,444, respectively.

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, as follows:

- Debt service represents cash and investments held by Certificate of Participation (COP) trustees for debt service in accordance with the COP indentures
- Construction represents funds set aside for the District's capital improvements program including unspent COPs proceeds, Metropolitan Water District funds *(see note 12)*, special electric plant construction funds, certain equipment and property reserves and other construction funds

- Self-insurance represents amounts equal to the estimated self-insurance liabilities
- Employee deferred compensation represents the cumulative deposits of compensation so deferred plus earnings less payments made to employees or beneficiaries *(see note 4)*
- Other represents advances and deposits from customers, amounts refundable to customers, certain other Metropolitan Water District funds *(see note 12)* and other funds.

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.

(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 $956,880 and $2,116,685 at December 31, 1997 and 1996, 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, 1997 and 1996 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, 1997 and 1996 are as follows:

	1997		1996	
	Carrying amount	Bank balance	Carrying amount	Bank balance
Insured	$ 882,011	884,822	993,174	857,708
Collateralized	2,731,415	5,262,628	2,659,624	4,363,923
Total cash deposits	$ 3,613,426	6,147,450	3,652,798	5,221,631

The District's cash deposits at December 31, 1997 and 1996 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, 1997 and 1996 are as follows:

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, 1997 and 1996 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 1997 and 1996 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 $4,470,000 and $10,212,375 at December 31, 1997 and 1996, 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, 1997 and 1996, 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 3.17% and 2.92%, and the unrealized loss was $258,737 and $645,930, or 27.0% and 30.5% of total portfolio unrealized losses, at December 31, 1997 and 1996, respectively.

The District's investments at December 31, 1997 and 1996 are categorized by the level of custodial risk assumed by the District. The risk categories are defined as follows:

<u>Category 1</u>: 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.

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

<u>Category 3</u>: 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.

<u>Not Required To Be Categorized</u>: 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. Individual investment vehicle data for the portfolios of either the LAIF or mutual funds investments is not readily available at December 31, 1997 and 1996.

The District's investments at December 31, 1997 and 1996 are categorized by level of custodial risk in the following table:

	1997			1996		
	Carrying amount	Market value/ contractual amount	Unrealized gain (loss)	Carrying amount	Market value/ contractual amount	Unrealized gain (loss)
Risk category 1:						
U.S. Government securities	$ 5,861,425	6,081,452	220,027	14,060,753	14,219,792	159,039
U.S. Government agency securities	53,196,938	53,016,594	(180,344)	22,751,843	22,285,010	(466,833)
Medium-term corporate notes	26,890,585	26,546,284	(344,301)	39,041,186	38,414,128	(627,058)
Negotiable certificates of deposit	100,000	100,000	—	100,000	100,000	—
Total risk category 1	86,048,948	85,744,330	(304,618)	75,953,782	75,018,930	(934,852)
Risk category 2:						
U.S. Government agency securities	28,031,874	27,536,814	(495,060)	30,163,680	29,506,724	(656,956)
Medium-term corporate notes	2,431,011	2,390,416	(40,595)	5,673,121	5,570,097	(103,024)
Total risk category 2	30,462,885	29,927,230	(535,655)	35,836,801	35,076,821	(759,980)
Risk category 3:						
U.S. Government agency securities	1,603,304	1,624,711	21,407	407,068	408,341	1,273
Negotiable certificates of deposit	27,239	27,239	—	20,092	20,092	—
Commercial paper	—	—	—	974,042	993,560	19,518
Total risk category 3	1,630,543	1,651,950	21,407	1,401,202	1,421,993	20,791
Investments not required to be categorized:						
State Treasurer's Local Agency Investment Fund	13,000,000	13,000,000	—	14,900,000	14,900,000	—
Mutual fund investments	4,544,799	4,406,785	(138,014)	3,234,861	2,792,217	(442,644)
Employee deferred compensation plan (held in mutual funds)	19,422,554	19,422,554	—	17,494,758	17,494,758	—
Total investments not required to be categorized	36,967,353	36,829,339	(138,014)	35,629,619	35,186,975	(442,644)
Total investments	155,109,729	154,152,849	(956,880)	148,821,404	146,704,719	(2,116,685)
Cash deposits	3,613,426	3,613,426	—	3,652,798	3,652,798	—
Total cash & investments	$ 158,723,155	157,766,275	(956,880)	152,474,202	150,357,517	(2,116,685)
Cash & investments	$ 9,835,652			2,130,711		
Restricted cash & investments	148,887,503			150,343,491		
Total cash & investment	$ 158,723,155			152,474,202		

(3) **Utility Plant**

Utility plant is comprised of the following at December 31, 1997 and 1996:

	1997			1996		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Land & land rights	$ 10,694,967	7,525,112	18,220,079	10,679,743	7,384,611	18,064,354
Structures & improvements	7,621,430	71,742,260	79,363,690	7,587,719	71,515,178	79,102,897
Canals	181,439,622	—	181,439,622	169,371,605	—	169,371,605
Drainage	47,113,598	—	47,113,598	44,136,630	—	44,136,630
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 & field equipment	7,412,211	2,047,024	9,459,235	6,823,894	1,884,222	8,708,116
Automobiles & trucks	10,476,275	13,263,034	23,739,309	9,298,469	11,626,332	20,924,801
Other plant equipment	22,380,842	38,054,013	60,434,855	22,814,041	31,824,877	54,638,918
Steam plant equipment	—	108,640,641	108,640,641	—	107,103,749	107,103,749
Hydroelectric generating equipment	—	22,654,858	22,654,858	—	22,167,399	22,167,399
Gas turbines	—	24,674,801	24,674,801	—	23,968,044	23,968,044
Transmission plant	—	211,443,550	211,443,550	—	202,976,995	202,976,995
Distribution plant	—	278,790,564	278,790,564	—	256,047,741	256,047,741
Reservoirs & dams	5,021,810	3,644,671	8,666,481	5,021,810	3,644,671	8,666,481
Plant in service	316,985,518	782,480,528	1,099,466,046	300,558,674	740,143,819	1,040,702,493
Less accumulated depreciation:						
Balance at beginning of year	64,585,793	233,109,319	297,695,112	58,338,850	213,126,576	271,465,426
Add:						
Depreciation of fixed assets not acquired through contributions	3,278,298	20,602,377	23,880,675	3,121,525	19,965,863	23,087,388
Depreciation of fixed assets acquired through contributions	4,060,509	1,284,640	5,345,149	3,625,900	1,286,994	4,912,894
Less retirements, net	(284,876)	(1,444,246)	(1,729,122)	(500,482)	(1,270,114)	(1,770,596)
Balance at end of year	71,639,724	253,552,090	325,191,814	64,585,793	233,109,319	297,695,112
	245,345,794	528,928,438	774,274,232	235,972,881	507,034,500	743,007,381
Construction in process	464,043	6,794,405	7,258,448	969,260	11,790,495	12,759,755
Net book value of utility plant assets	$ 245,809,837	535,722,843	781,532,680	236,942,141	518,824,995	755,767,136

Provision for depreciation and amortization expense for the years ended December 31, 1997 and 1996 are allocated as follows:

		1997			1996		
		Water Department	Power Department	Combined	Water Department	Power Department	Combined
Included in operation and maintenance expenses	$	1,270,789	767,808	2,038,597	1,078,904	681,133	1,760,037
Provision for depreciation		6,068,018	21,119,209	27,187,227	5,668,521	20,571,724	26,240,245
Total depreciation		7,338,807	21,887,017	29,225,824	6,747,425	21,252,857	28,000,282
Amortization of contributions		(4,060,509)	(1,284,640)	(5,345,149)	(3,625,900)	(1,286,994)	(4,912,894)
Net reduction of retained earnings from depreciation	$	3,278,298	20,602,377	23,880,675	3,121,525	19,965,863	23,087,388

(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, 1997 and 1996, net assets available for benefits amounted to $19,422,554 and $17,494,758, 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, 1997 and 1996:

		1997				
		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 $876,638 & cumulative accretion of $3,381,601 on capital appreciation certificates *(note 6)*	$	—	—	4,920,000	31,939,961	36,859,961
Certificates of Participation – 1991, net of unamortized original issue discount of $4,364 *(note 6)*		—	—	7,065,636	—	7,065,636
Certificates of Participation – 1993, net of unamortized original issue discount of $357,151 *(note 6)*		—	—	425,000	41,947,849	42,372,849
Certificates of Participation – 1994, net of unamortized original issue premium of $270,451 *(note 6)*		—	—	100,000	59,575,452	59,675,452
Certificates of Participation – 1996, net of unamortized original issue discount of $141,356 *(note 6)*		540,000	15,938,644	—	—	16,478,644
Water bonds payable *(note 7)*		76,381	1,660,210	—	—	1,736,591
Obligation under capital lease *(note 8)*		1,020,338	2,166,468	1,015,374	2,169,913	6,372,093
	$	1,636,719	19,765,322	13,526,010	135,633,175	170,561,226

		1997				
		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 & 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)*		—	—	100,000	59,688,433	59,788,433
Certificates of Participation – 1996, net of unamortized original issue discount 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

(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 1997 and 1996.

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 sheets (see 1993 Issue elsewhere in this note). The balance outstanding of 1990 COPs considered defeased was $39,380,000 at December 31, 1997 and 1996.

The outstanding balance of 1990 COPs was $36,859,961 and $40,848,630, net of the unamortized original issue discount of $876,638 and $947,910 and cumulative accretion on capital appreciation certificates of $3,381,601 and $2,826,541, at December 31, 1997 and 1996, 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, 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	2,171,221	6,901,600
November 1, 2001		410,838	1,497,562	1,908,400
November 1, 2002		2,620,220	4,633,181	7,253,401
Thereafter		16,428,561	6,299,836	22,728,397
Cumulative accretion		3,381,601	(3,381,601)	—
Original issue discount		(876,638)	—	(876,638)
	$	36,859,961	14,863,115	51,723,076

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 sheets. 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 1997 and 1996.

The outstanding balance of 1991 COPs was $7,065,636 and $13,756,090, net of unamortized original issue discount of $4,364 and $18,910, at December 31, 1997 and 1996, 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, 1998	$	7,070,000	203,263	7,273,263
Original issue discount		(4,364)	—	(4,364)
	$	7,065,636	203,263	7,268,899

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 sheets.

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 semi-annually 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 1997 and 1996.

The outstanding balance of 1993 COPs was $42,372,849 and $42,752,582, net of unamortized original issue discount of $357,151 and $387,418, at December 31, 1997 and 1996, 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, 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
November 1, 2002		385,000	1,803,205	2,188,205
Thereafter		35,535,000	7,802,530	43,337,530
Original issue discount		(357,151)	—	(357,151)
	$	42,372,849	17,918,888	60,291,737

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 $59,675,451 and $59,788,433 at December 31, 1997 and 1996, respectively, including unamortized original issue premium of $270,451 and $283,433, respectively.

The terms of the 1994 COPs Installment Purchase Contract require maintenance of certain financial ratios with which the District has complied for 1997 and 1996.

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, 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
November 1, 2002		480,000	3,571,800	4,051,800
Thereafter		57,480,000	41,446,388	98,926,388
Original issue premium		270,451	—	270,451
	$	59,675,451	59,554,088	119,229,539

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 $16,478,644 and $16,951,003 at December 31, 1997 and 1996, respectively, including unamortized original issue discount of $141,356 and $148,997, respectively.

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, 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
July 1, 2002		640,000	806,794	1,446,794
Thereafter		13,680,000	6,608,594	20,288,594
Original issue discount		(141,356)	—	(141,356)
	$	16,478,644	10,915,310	27,393,954

(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, 1997 and 1996 was $1,736,591 and $1,809,998, respectively.

The debt service on such obligation is as follows:

		Principal amount	Interest	Total debt service
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
2002		89,539	55,772	145,311
Thereafter		1,322,441	327,209	1,649,650
	$	1,736,591	639,614	2,376,205

(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
1998	$	2,157,611	141,588	53,416	2,352,615
1999		1,961,546	295	53,416	2,015,257
2000		1,118,719	—	4,451	1,123,170
2001		1,033,329	—	—	1,033,329
2002		566,735	—	—	566,735
		6,837,940	141,883	111,283	7,091,106
Less interest portion		(706,738)	(3,720)	(8,555)	(719,013)
Net	$	6,131,202	138,163	102,728	6,372,093

(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.

At December 31, 1997 and 1996, membership consisted of:

	1997	1996
Retirees & beneficiaries currently receiving benefits & terminated employees entitled to benefits, but not yet receiving such benefits	588	420
Current employees:		
Vested	989	959
Nonvested	81	44
Total membership	1,658	1,423

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 ten 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 received either a retirement benefit or termination benefit. Eighty employees elected to participate in this program. The District's management and their actuaries estimated the cost of the additional contributions required and additional pension benefits payable for the retirement and termination effects of TRIP at $1,800,000 and $16,906,523, respectively *(see note 13)*.

Voluntary Executive Incentive Target Program

In October 1997, the Board of Directors authorized the Executive Incentive Target Program (EXIT) which was offered to top management employees of grade 28 or above with at least six years of continuous active service who attain the age of at least 53 no later than January 31, 1998. Each eligible participant who was actively employed on February 1, 1998 and who (a) was eligible to retire or (b) had completed at least six years of continuous service, but was not otherwise eligible for early retirement, was entitled under EXIT to receive a retirement benefit. Sixteen employees elected to participate in the program. The District's management and their actuaries estimated the cost of the additional contributions required and additional pension benefits payable for the retirement effects of EXIT at approximately $1,860,000 and $6,460,000, respectively *(see note 14)*.

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
1997	$	N/A	N/A	N/A	N/A	$	47,489	N/A
1996		24,249	25,317	1,068	95.78%		48,080	2.22%
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)

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
1997	$	4,588,300 [1]	9.66%	100%
1996		3,794,736	7.89	100
1995		5,521,343 [2]	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

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, 1997
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[3]	7.25%
Projected salary increases[3]	4.50%
Includes inflation at[3]	1.50%
Cost-of-living adjustments	None

N/A – Not available
1. Includes accrued contribution for EXIT.
2. Includes accrued contribution for TRIP.
3. 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, 1997 and 1996, the District accrued $2,012,297 and $1,869,500, 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, 1997 and 1996, the District's management accrued $14,355,281 and $15,997,500, respectively, for estimated claims. Such amounts have been included in other accrued expenses in the accompanying combined balance sheets for 1997 and 1996, 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
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
2002		5,272,000	9,187,000	14,459,000
Thereafter		56,029,000	146,992,000	203,021,000
	$	82,389,000	192,929,000	275,318,000

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:

1998	$	35,460,000
1999		35,460,000
2000		35,460,000
2001		35,460,000
2002		35,460,000
	$	177,300,000

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 $2,471,953 and $8,172,435 in 1997 and 1996, 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 336 and 300 employees meet the eligibility requirements at December 31, 1997 and 1996, respectively. 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. Such premiums aggregated approximately $1,228,000 and $1,470,000 for 1997 and 1996, 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 1997 and 1996, the District received $14,406,788 and $10,910,154, respectively, as reimbursement for approved capital costs. Cumulative payments received total approximately $133,346,254 and $116,861,548 at December 31, 1997 and 1996, 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 was included in accrued compensation and payroll taxes in the 1995 combined financial statements. Also included in accrued compensation and payroll taxes in the 1995 combined financial statements was approximately $1,870,000 representing management's estimate of the required additional contributions to the pension plan.

Eligible sick leave and vacation of approximately $1,070,000 and $330,000, respectively, has also been included in accrued compensated absences in the 1995 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) Voluntary Executive Incentive Target Program

On October 14, 1997, the Board of Directors authorized an incentive program in order to streamline the District's organizational structure by reducing top management positions. The EXIT program was effective February 1, 1998.

The EXIT Program was offered to 18 management employees. In order to be eligible to participate in the EXIT Program, the employee must be a grade 28 or above, attain the age of 53 no later than January 31, 1998 and have six years of continuous service with the District. Program incentives included a combination of an additional four years credited age or service, with a maximum of two years credited age, to the pension plan. Accrued sick and vacation leave were paid in accordance with District policy. Sixteen employees elected to participate in the program.

Included in accrued compensation and payroll taxes in the accompanying combined financial statements is $1,859,721 representing management's estimate of the required additional contributions to the pension plan.

Eligible sick leave and vacation of $490,761 and $268,913, 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 $126,000 in 1998 and additional future salary and benefit savings totaling approximately $1,986,000 thereafter.

(15) Salton Sea Authority

The District is a member of the Salton Sea Authority (Authority), a joint powers authority formed in 1993 for the purpose of working with the state of California, the Federal Government and the Republic of Mexico in the development of programs to ensure continued beneficial uses of the Salton Sea. These beneficial uses include its primary purpose as a depository for agricultural drainage, 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.

comparative statistics

	1997	1996	1995	1994	1993
Revenues from Energy Sales ($000)					
Residential	$ 80,210	$ 76,310	$ 68,637	$ 75,731	$ 69,424
Commercial/Industrial	104,537	99,759	97,416	101,624	92,203
Other	13,304	13,157	12,221	12,937	11,672
	$ 198,051	$ 189,226	$ 178,274	$ 190,292	$ 173,299
Energy Sold (MWh)					
Residential	952,866	942,020	867,229	884,516	830,757
Commercial/Industrial	1,297,306	1,272,742	1,276,291	1,231,184	1,160,942
Other	162,161	167,684	157,593	154,823	144,261
	2,412,333	2,382,446	2,301,113	2,270,523	2,135,960
Electric Customers					
Residential	74,213	72,995	71,081	69,574	67,714
Commercial/Industrial	12,256	11,972	11,758	11,647	11,442
Other	2,634	2,598	2,549	2,501	2,478
	89,103	87,565	85,388	83,722	81,634
Electric Plant					
Net Utility Plant	$ 535,722,843	$ 518,824,995	$ 500,447,215	$ 492,365,748	$ 483,346,485
Miles of Lines:					
Transmission	1,643	1,648	1,637	1,632	1,503
Distribution	3,583	3,499	3,415	3,382	3,340
Bonded Indebtedness	$ 145,973,898	$ 157,145,735	$ 167,704,643	$ 177,703,028	$ 127,071,555
Power Supply (MWh)					
Purchases	1,869,842	1,945,076	2,192,687	2,780,027	1,979,081
Generation	943,125	806,068	756,462	671,643	910,151
Peak Demand (MW)	632	639	630	620	567
Historical Average Electric Rates (cents)					
Base Rate	8.44	7.94	7.40	7.82	8.01
Energy Cost Adjustment	(0.23)		0.35	0.56	0.10
	$ 8.21	7.94	7.75	8.38	8.11

	1997	1996	1995	1994	1993
Reconciliation of Net Earnings to Balance Available for Debt Service ($000)					
Net Earnings	$ 34,409	$ 33,169	$ 21,102	$ 31,345	$ 23,569
Miscellaneous	$ (2,472)	$ (8,208)	$ (8,505)	$ (8,579)	< -8,624>
Add Back:					
Depreciation	$ 21,887	$ 21,253	$ 21,072	$ 19,056	17,663
Interest Expense	$ 8,923	$ 9,696	$ 10,539	$ 10,285	7,053
Balance Available for Debt Service	$ 62,747	$ 55,910	$ 44,208	$ 52,107	$ 39,661
Debt Service	$ 20,499	$ 20,512	$ 20,527	$ 19,326	$ 16,149
Coverage on Debt Service	3.06	2.73	2.15	2.70	2.46
Add Back Obligation Service	$ 14,460	$ 12,743	$ 11,651	$ 11,652	8,596
Balance Available for Debt and Obligation Services	$ 77,207	$ 68,653	$ 55,859	$ 63,759	$ 48,257
Coverage on Debt and Obligation Services	2.21	2.06	1.74	2.06	1.95

Ten Largest Power Customers (in alphabetical order)

Name	Type of Business
Coachella Valley Water District	Public Water System
East Mesa Partners	Geothermal Steam Production
Geo East Mesa Ltd. Partners	Geothermal Steam Production
Ormesa Geothermal	Geothermal Steam Production
Riverside County	Municipal Services
Santa Fe Pacific Minerals	Mining
Second Imperial Geothermal	Geothermal Steam Production
State of California Corrections	Correction Facility
U. S. Gypsum	Gypsum Products
U. S. Naval Air Facility	Naval Installation

CCCOMPARATIVE STATISTICS – WATER DEPARTMENT

	1997	1996	1995	1994	1993
Revenues from Water Sales ($000)					
Agricultural	$ 34,672	$ 34,855	$ 31,886	$ 30,336	$ 27,511
Industrial	1,089	1,134	1,071	995	864
Municipal	398	430	412	370	354
Miscellaneous	444	499	291	567	575
	$ 36,603	$ 36,918	$ 33,660	$ 32,268	$ 29,304
Water Delivered (acre feet)					
Agricultural	2,803,640	2,821,987	2,678,768	2,674,282	2,414,113
Industrial	17,458	18,130	17,708	17,152	14,897
Municipal	31,734	34,267	34,052	31,439	30,513
	2,852,832	2,874,384	2,730,528	2,722,873	2,459,523
Historical Water Rates					
Water (per acre foot)	$ 12.50	$ 12.50	$ 12.00	$ 11.50	$ 11.50
Water Availability (per acre)	$ 5.70	$ 5.70	$ 3.80	$ 3.80	$ 3.80

Ten Largest Water Customers (in alphabetical order)

Name	Type of Business
Alex Abatti, Jr.	Farming
Tony Abatti	Farming
Baja Farms	Farming
Ben Abatti Farms	Farming
Black Dog Farms	Farming
John Grizzle	Farming
Fritz Kuhn	Farming
La Brucherie Ranch Inc.	Farming
West Gro	Farming
Rick Young	Farming

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