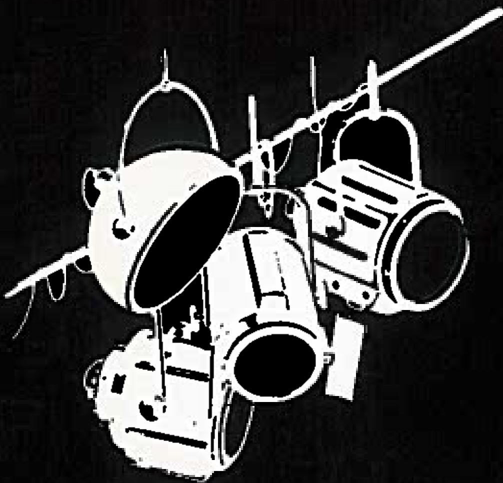


SETTING THE STAGE

Imperial Irrigation District 1987 Annual Report

Director Lester Bornt
Division 5

Director William Condit
Division 1

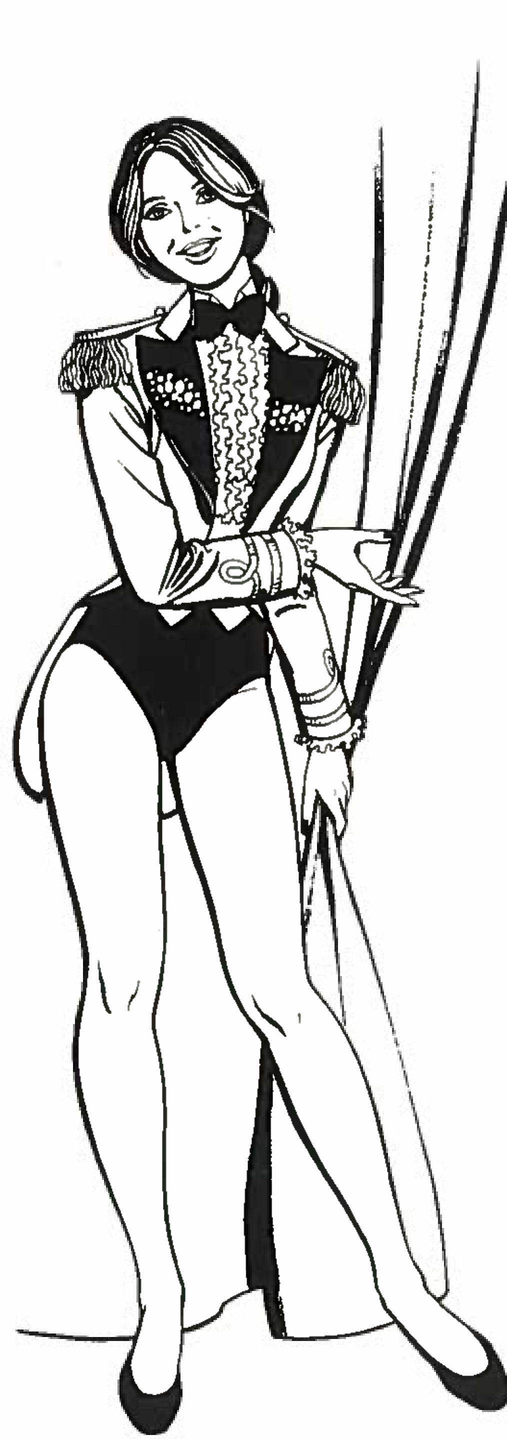
Board President Gerald Moore
Division 2

Director Tony Gallegos
Division 3

Director John Benson
Division 4

PROLOGUE

The Imperial Irrigation District is a consumer-owned utility, governed by five directors, elected at large from the District service area. The year 1987 at the Imperial Irrigation District was much the same as the preparation for a long run on Broadway. During the year the "cast and crew" of the District has been "setting the stage" for a well choreographed performance into the next century.

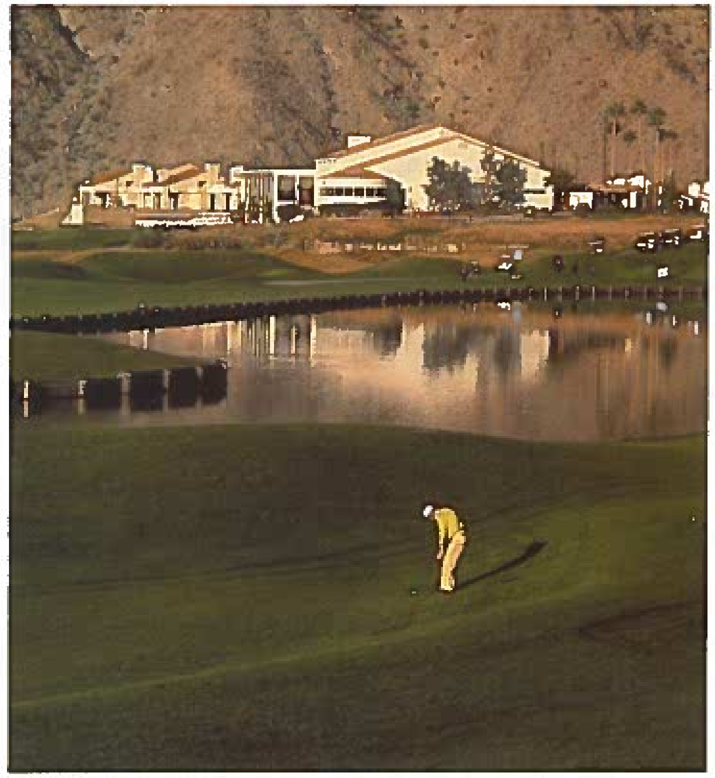


CREDITS

SET DESIGN

The setting is the southernmost tip of California . . . in the desert . . . an area where agriculture, recreation . . . and air-conditioning abound. Irrigation has turned the desert area into a patchwork of fertile fields of alfalfa, wheat, sugar beets, cotton, melons, citrus and more. Imperial Valley, a national leader in agricultural production, is matched by the sprawling celebrity golf courses and resort hotels in the Coachella Valley. Between them lies one of the largest inland sport fisheries in California, the Salton Sea.

Winter visitors appreciate the mild climate and full-time residents cope with soaring summer temperatures. The warm weather, coupled with three inches of rainfall annually, places the irrigation and power utility for the area in the limelight in consumer's minds.



La Quinta Hotel Golf Club

Borchard — Imperial Valley

ACT I

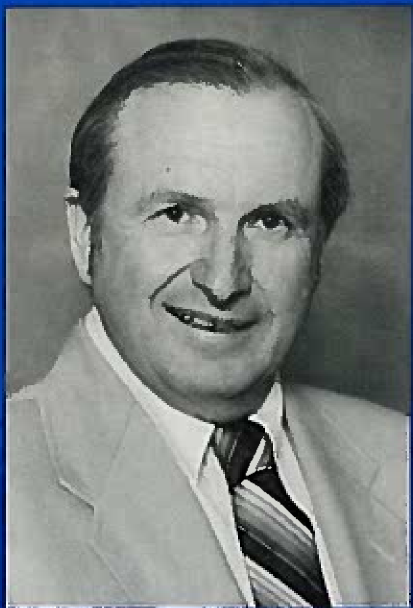
Cutting through the sandy dunes along the U.S. side of the Mexican border, the 82-mile-long All-American Canal brings water from the Colorado River to a 3,000-mile network of gravity-flow canals and drains. The primary water user within Imperial Valley is agriculture as 98 percent of the water is used to irrigate approximately 500,000 acres of farmland. Nine cities also receive water on a wholesale basis. The Imperial Irrigation District diverts and distributes approximately 2.6 million acre-feet of Colorado River water each year. (An acre-foot of water is enough to support a family of four for one year.)

IID's extensive irrigation system has been named by the U.S. Bureau of Reclamation as one of the world's most efficient gravity-flow systems. Irrigation engineers from all parts of the world have toured this exemplary "lifeblood" of the desert.

ACT II

Virtually all homes and businesses are equipped with air-conditioning. Reliable and inexpensive electrical service therefore plays a key role at the Imperial Irrigation District, where consumption of electrical power per dwelling averages among the highest in the nation. As the need for more electrical energy has increased, the IID has expanded its resources and designed a system to meet this demand. Sources of IID generated power are hydroelectric, steam, gas and diesel. Energy is also purchased through agreements with the Western Area Power Administration, El Paso Electric Company and the Palo Verde Nuclear Generating Station.

The District plays a support role in transmitting power from developing alternative energy sources, such as geothermal, to other Southern California utilities.



DIRECTOR'S VIEW

If there was one issue that stole the scene at the Imperial Irrigation District during 1987, it was Water Conservation. This subject took many forms from policy and study, to projects and operations management. Activities covered the spectrum from revising the rules governing tailwater to negotiating for funds for the conservation plan. Numerous hours were spent deliberating, meeting and directing water conservation activities.

In January of 1987, the Board initiated actions to develop a Water Transfer Policy before negotiations with Metropolitan Water District were resumed. Public meetings were held with county groups including the County Board of Supervisors and the Farm Bureau regarding a Water Transfer Policy. By mid-April, 12 "Principles of Water Negotiations" based on public input made their debut.

The Board also initiated an action to sell conserved water outside the District boundaries to the I. T. Corporation which met some resistance. After protracted discussions with the State Treasurer's Office, the Department of Interior, Metropolitan Water District, Coachella Valley Water District and Palo Verde Irrigation District, the IID was able to sell 100 acre-feet (AF) of conserved water for $250/AF.

Following many weeks of discussion, the Board, on October 27, adopted Resolution No. 32-87 supporting the concept of marketing conserved water under Section 1011 of the State Water Code.

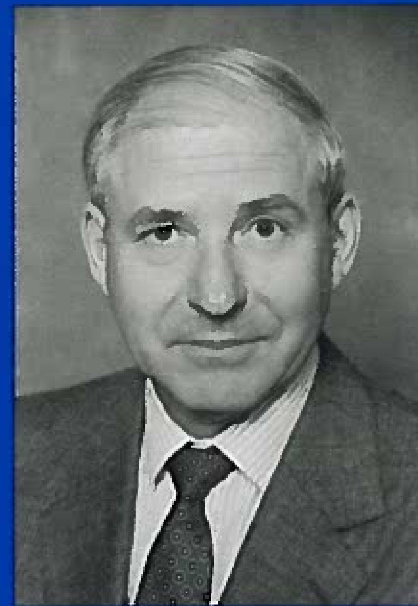
Several media events were planned and carried out by the Board to inform other communities within California of the water conservation activities of the District.

At the final meeting of 1987, the Board endorsed the concept of a Water Marketing Association. In conjunction with the push for the water marketing concept and theory, several consultants and attorneys were retained to promote and develop this principle throughout California. These activities by the Board ushered the District into the spotlight of water management in the West.

Gerald L Moore

Gerald Moore
President of the Board

PRODUCER'S NOTES



Nineteen hundred and eighty-seven was a true test of the Imperial Irrigation District's talent for responding to emergencies while continuing efficient daily operations. A major earthquake and a lightning strike in a substation challenged our well-rehearsed emergency preparedness plan. Additionally, the Power Department began one of the largest transmission line projects, a 230-kV line to transmit excess geothermal electricity in Imperial Valley to our Southern California Edison tie in Coachella, approximately 110 miles away. And, although operations of the Water Department were restricted by a very frugal budget, an aggressive water conservation program was designed.

In April, the staff and management conducted a "mock emergency disaster drill." No one knew the real thing would be necessary in November. On November 24, a 6.6 Richter Scale earthquake rattled the Valley. Centered 14 miles west of Westmorland, the quake buckled several delivery canals in the area.

Many of the concrete-lined structures were separated and large sections were washed away from their banks. Although many miles of canals were replaced, the farmers in the area were not deprived of water for their crops (Bravo!). The Power Department experienced a Valley-wide outage for several minutes following the quake. Improved technology paid off as most customers were restored when the automatic reclosing devices took over. Damage to the power system was minimal.

The Power Department's emergency capabilities passed the screen test when lightning struck the Calexico Substation on September 23. The estimated $500,000 in damage resulted from lightning striking the transformers and exploding the expansion tanks. The heat from the fault and gases melted the plumbing. Power was restored to most of Calexico within a few hours by installation of a temporary system. Crews worked another 15 hours to establish service for six blocks of the downtown section. We expect to have the substation completely rebuilt in early 1988.

A major step to protect the District from major outages in the future was accomplished in October when IID and the Comisión Federal De Electricidad signed an emergency service agreement in Mexico City. The agreement will allow the two utilities to buy low-cost energy from each other when available and provide energy in the event of an emergency in either system.

(Continued on next page)

(Continued)

The Water Department used the available financial resources to orchestrate the studies, plans and designs for a multimillion dollar water conservation program and water system upgrade. It was decided early in the budget process for 1987 that large construction projects would not be possible. However, several engineering studies and computer models of various water conservation implementation plans were produced. Other studies included "Irrigation Scheduling Program," "Demonstration Tailwater Recovery System-Interim Report," "Lateral Fluctuation Study," and "Rules and Regulations Governing Tailwater Assessments and Delivery Adjustments to Conserve Water."

The operational studies and programs also continued to play a role. A Salton Sea computer model was developed to duplicate various scenarios for the evaporation and stabilization of the Salton Sea. The District became the lead in the Salton Sea Task Force, created to investigate solutions to the Salton Sea water levels and salinity problems.

Another operational program that deserved an encore was the hydrilla control program, starring the Triploid Grass Carp. Hundreds of thousands of dollars in canal maintenance costs are saved annually through the use of these voracious weed-eating fish. Introduced in the canals in 1985, and restocked each year as needed, the fish keep the waterways clean and available for delivery to the area farms. During 1987 we began construction of a fish hatchery in El Centro. The facility will hopefully produce more than enough fish for our needs plus the needs of our neighbors in Coachella and Mexico. The first fish from the facility will be produced in the fall of 1988. We are expecting rave reviews.

The biggest curtain call of the year belongs to the employees of the District who are providing our customers service 365 days of the year. These are the people who deliver the water and ensure that electrical power is available around-the-clock. Combined with the backup support of the dedicated staff and management personnel, the District employee cast's performance displayed planning, leadership, training and practice. Take a bow, staff!

Charles L. Shreves

Charles L. Shreves
General Manager

STUDYING OUR ROLES

Throughout 1987, the Imperial Irrigation District was involved in numerous studies and pilot projects which were all part of "setting the stage" for future irrigation delivery system projects.

Water Conservation

In anticipation of large water conservation projects over the next 35 years, a systematic Implementation Plan was completed in 1987. The plan covers all proposed water conservation projects, both in the IID's distribution system and on-farm. Implementation strategy, schedules, project descriptions and cost data are all included in this comprehensive script for the future.

ADMIT ONE

IRRIGATED ACREAGE

1987	520,749 acres
1986	525,561 acres

1296 E-54

Trifolium Reservoir

The Trifolium Extension Reservoir is currently under construction through a Department of Water Resources loan program under the Clean Water Bond Law of 1984. IID staff is working with a consultant, UMA Engineering, to develop the automation facilities for the Trifolium. This will be used as a pilot project for planning automation for other key control facilities throughout the District. Construction on the reservoir is scheduled to be completed by September of 1988.

Hydrilla Control

During 1987, IID continued with its aggressive hydrilla control program founded on work conducted since 1981. Having identified biological control as the best method of controlling the noxious water weed, the IID designed plans for constructing a Triploid Grass Carp production facility. The fish hatchery will be one of only about a dozen grass carp hatcheries in the nation and is expected to produce some 10,000 to 20,000 sterile grass carp each year for use in local canals. Construction of the facility began in mid-1987.

Salton Sea

Part of the District's ongoing Water Conservation planning requires mitigating negative impacts to the Salton Sea. The Salton Sea is a valuable recreational resource to the State of California as well as to the Imperial Valley. The Federal-State Reconnaissance Report of 1969 estimated benefits from the Salton Sea to be $12,045,000 annually. The California Department of Fish and Game currently has two major projects underway in the Salton Sea area. One project will update the estimate of Salton Sea

ADMIT ONE

WATER DELIVERED

1987	2,386,120 AF
1986	2,336,583 AF

1296 E-54

recreational benefits; the other will attempt to determine the effects of rising salinity on the Salton Sea's fish population. Because the Salton Sea is a closed basin, salinity will continue to increase and eventually destroy the existing fishery. Water conservation by the District will aggravate the salinity problem by reducing the amount of "fresh" water flowing to the sea.

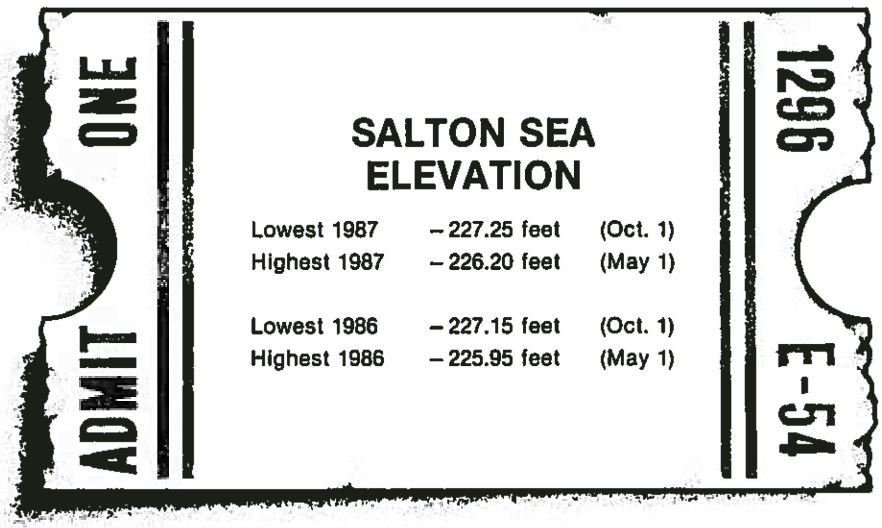
Computer Model

Although the IID does not anticipate being the only agency involved in efforts to preserve the Salton Sea, steps are being taken to alleviate the problem. A computer model has been developed by IID staff to simulate elevation and salinity changes under various hydrologic conditions and pumping schemes. Using this model, the IID has been able to evaluate a proposal for constructing evaporation ponds outside of the Salton Sea's perimeter. In addition to this model study, the IID has applied for a low interest loan under the Water Conservation and Water Quality Bond Law of 1986 to conduct an evaporation pond pilot study. Under this study, a proposed 10-acre pond would be constructed and filled with water from the Salton Sea.

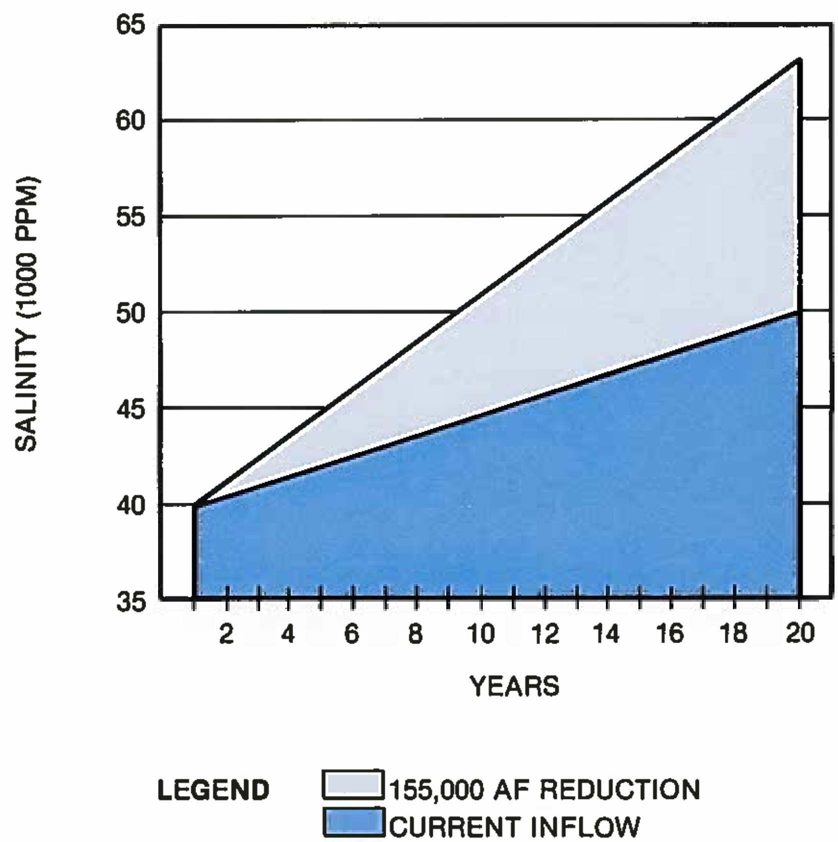
The pond would be monitored for potentially toxic elements such as selenium and heavy metals, chemical reactions that may take place such as the volatilization of selenium and salt accumulation to determine pond life. The effects of salinity and temperature on evaporation rate will also be investigated.

The IID has been actively involved in the Salton Sea Task Force chartered by Governor Deukmejian. Findings from the IID's computer model study were presented for discussion and have been used to provide specific information to the Salton Sea Task Force.

The IID has been involved in discussions with ORMAT, a geothermal developer, concerning the possibility of constructing enhanced-evaporation solar ponds near the Salton Sea to generate electricity. These ponds, used successfully on the Dead Sea, would remove highly saline water from the Salton Sea, just as conventional evaporation ponds, but would require less area and provide the added benefit of generating electricity. After review by IID staff, representatives from ORMAT presented the solar pond alternative to the Salton Sea Task Force working group.

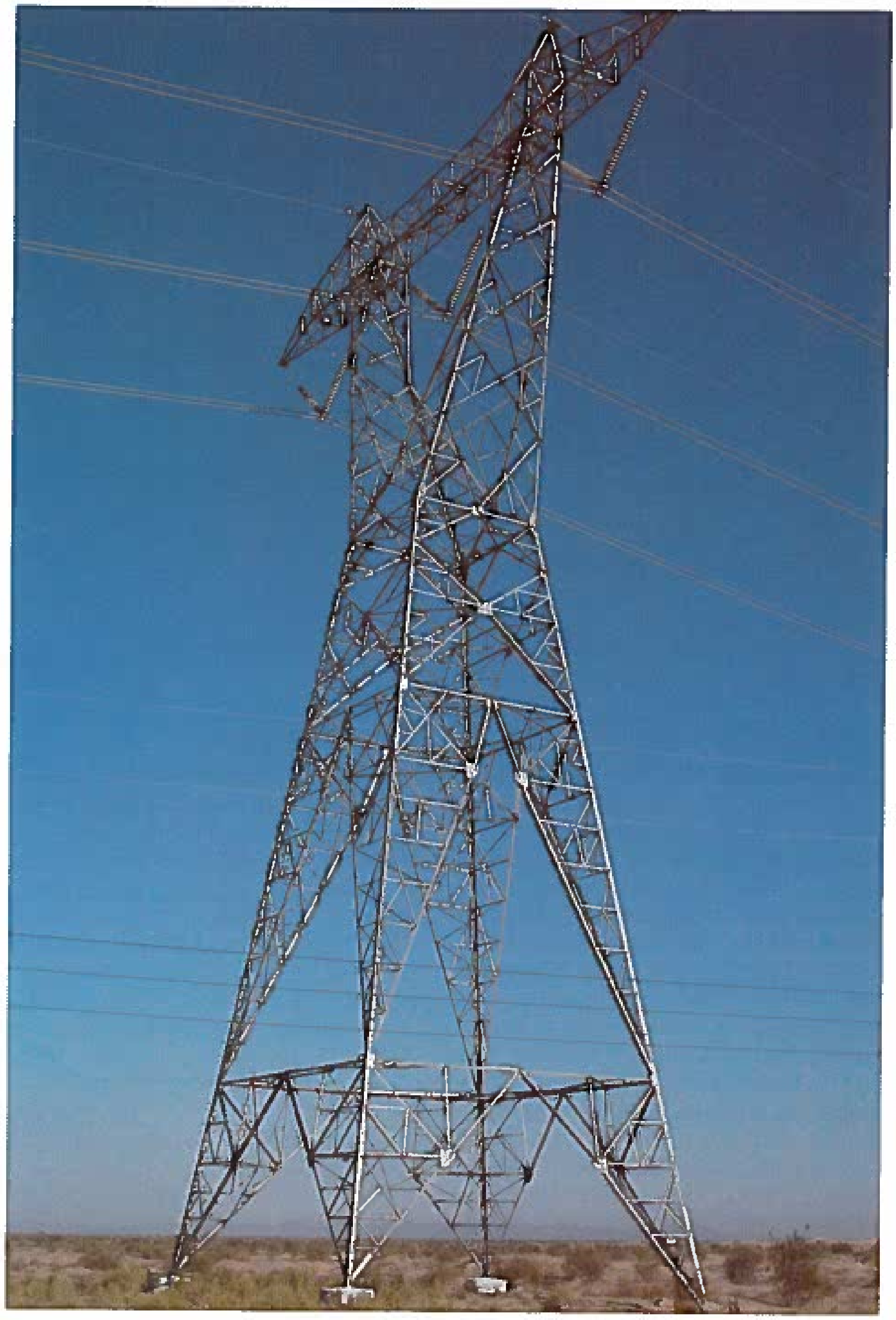


SALTON SEA SALINITY



KNOWING OUR LINES

The return to more normal flows on the Colorado River was the cue that hydro generation purchases from the Department of Energy would be down approximately 25 percent from 1986. Also prompted by lower flows, the generation at the District's Pilot Knob Hydro Plant was down almost 50 percent from 1986. A continued high rate of growth in total kilowatt-hour sales will result in the percentage of hydro generation in relation to the total generation resource mix to continue to decline in the years to come. Although the kilowatt-hour sales in both the Imperial and Coachella Valleys was quite high in 1987, traditionally the growth rate in the Coachella Valley is almost twice that of the Imperial Valley. It will be necessary to add to the District's resource mix in order to meet these increased sales.



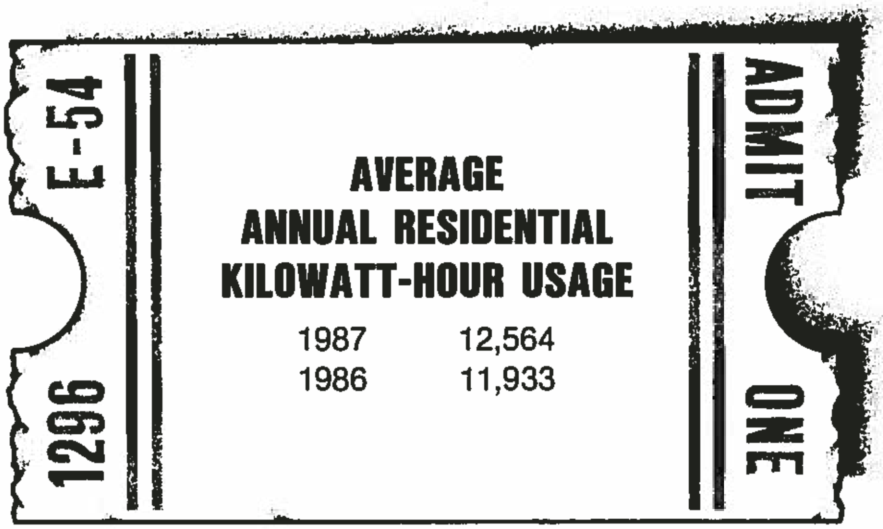
Geothermal Resource

Perhaps one day in the near future, the maturing of the geothermal industry in the Imperial Valley will play a more dramatic role. The District continues assisting in this endeavor by facilitating the construction of the 230-kV Transmission Project to be used to export the output of the developing alternate energy electric plants to the Southern California Edison (SCE) system. Standard offer four (SO-4) contracts entered into with SCE in 1984 and 1985 enabled the alternate energy electric plant developers to market their plants' output at a price a great deal higher than the District could afford.

Presently, connected onto the District's electric system are alternate energy plants totaling 203 MW. Plants totaling 126 MW are under construction and plants totaling 184 MW are in various stages of design. Of this total 513 MW of alternative energy, 433 MW is geothermal.

The Heber Binary Plant has been off-line since July, 1987 and is presently up for sale. It is unknown whether or not the plant will come back on-line in 1988. It appears unlikely at this time. If so, a decision must be made in early 1988 relative to dismantling the plant or placing it in long-term storage in order to await more favorable market conditions.

As the geothermal resource industry develops and gas and oil prices escalate, the time will come



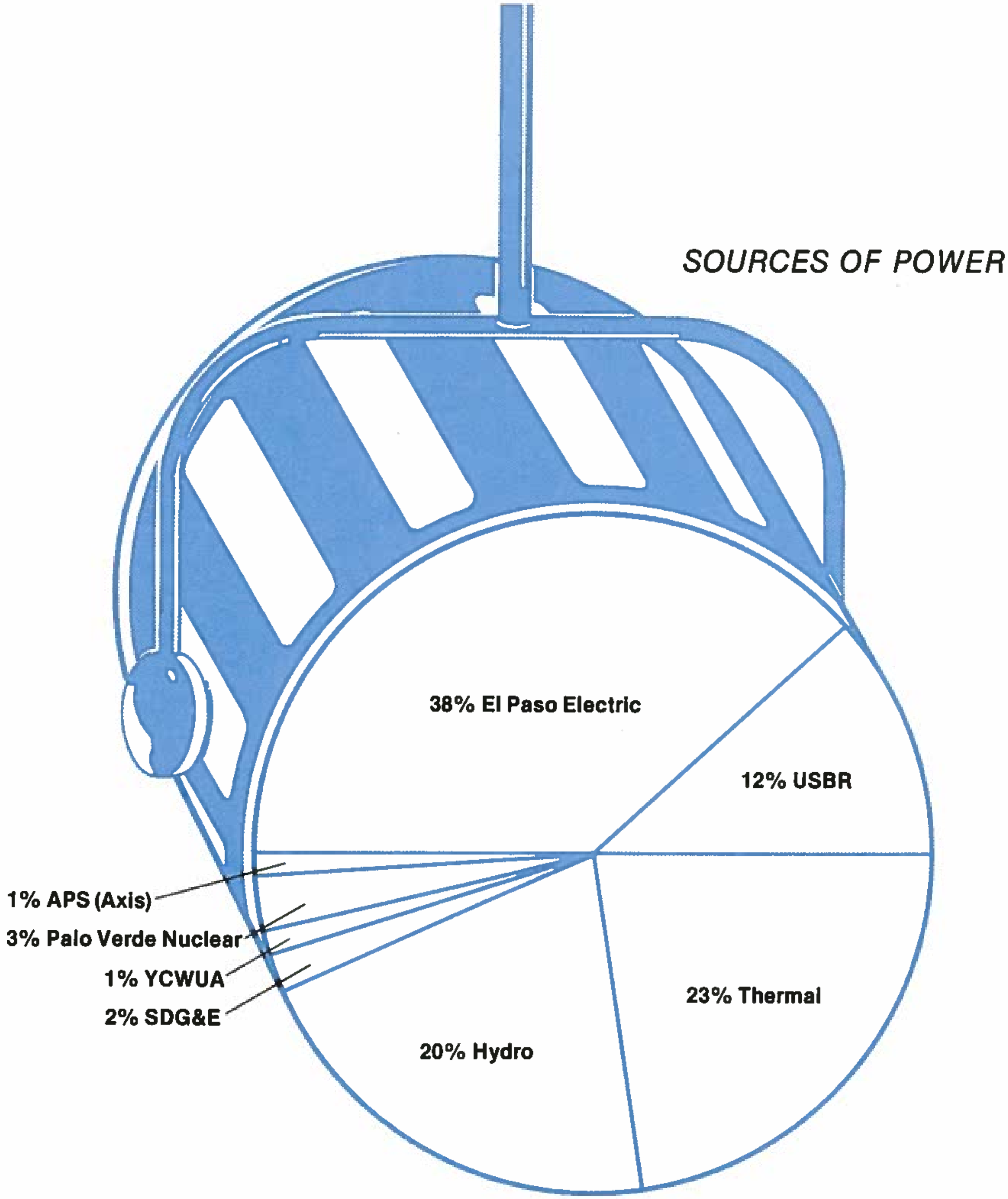
when the District will look to the geothermal resource to meet its needs. Although the price of geothermal energy Is too high now, it may not be sometime in the future.

The 230-kV Transmission Project must be completed all the way to SCE's Devers Substation, approximately 110 miles, before amounts greater than 400 MW can be transmitted to SCE.

System Upgrading

Coupled with a need for additional resources to meet its growth, the District must and is undertaking an upgrading of its transmission system. The 60-mile 92-kV transmission line from the Niland to the Coachella Substation is being rebuilt and reconductored for increased capacity with a completion date in 1989. The 161-kV to 92-kV transformer capacity is being increased at Coachella and Niland Substations. The 75-mile 92-kV transmission line running from the Coachella Substation to the El Centro Switching Station is being reinsulated for operation at 161-kV. In addition, a 161-kV to 92-kV 125 MVA transformer will be installed in a new substation to be located in the La Quinta area west of the city of Coachella.

It is expected that the 92-kV transmission system in the



Coachella area will need to be reconductored within the next five years in order to allow for increased loading. For the same reason, decisions must be made shortly whether to reconductor major 34.5-kV transmission lines in the Imperial Valley or upgrade them to 92-kV.

Operations Center

The design for additions to the System Operating Center in El Centro are completed and will go to bid in early 1988. This addition will allow for the eventual distribution control to be separated from the transmission control, as well as provide space for the installation of a Dispatcher's Training Simulator Console.

Communications

Plans have also been completed for the extension of the District's communication system. It is expected that bids for these extensions will also be out in early 1988. This will complete the District's communications system from the Mexican border to the south, the SCE system to the north, the Arizona/California border on the east and the Anza/Borrego area to the west.

KILOWATT-HOUR SALES

	Ultimate Consumers	Other Utilities	Total
1987	1,559,128,000	2,167,000	1,561,295,000
1986	1,425,583,800	6,542,000	1,432,125,800

SALES IN DOLLARS

	Ultimate Consumers	Other Utilities	Total
1987	$102,322,406	$64,596	$102,387,002
1986	87,758,165	97,397	87,855,562

AVERAGE NUMBER OF CUSTOMERS

	Residential	Commercial and Industrial	Agricultural	Other	Total
1987	52,072	9,552	975	1,343	63,942
1986	49,928	9,208	962	1,329	61,427

THE CAST

Charles Shreves
General Manager

Lonnie McGlocklin
Assistant to the General Manager

George Wheeler
Manager, Water Department

Hank Legaspi
Manager, Power Department

Bruce Penner
Manager, Personnel

Kris Fontaine
Manager, Finance & Accounting

Bill Mordah
Manager, Operations Services

THE UNDERWRITERS

IMPERIAL IRRIGATION DISTRICT
Combined Financial Statements
December 31, 1987 and 1986

The Board of Directors
Imperial Irrigation District:

We have examined the combined balance sheets of the Imperial Irrigation District as of December 31, 1987 and 1986 and the related combined statements of operations, changes in District equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned combined financial statements present fairly the financial position of Imperial Irrigation District at December 31, 1987 and 1986 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 19, 1988

Calderon, Jaham & Osborn
Peat Marwick Main & Co.

Calderon, Jaham & Osborn
Peat Marwick Main & Co.
a joint venture

Certified Public Accountants

1236 State Street
El Centro, California 92243
(619) 352-6022

IMPERIAL IRRIGATION DISTRICT

COMBINED BALANCE SHEETS

December 31, 1987 and 1986

	1987			1986		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
CURRENT ASSETS:						
Cash, cash equivalents and investments, at cost	$ (790,900)	$ 2,868,687	$ 2,077,787	$ -0-	$ 251,483	$ 251,483
Energy supply contract receivable	-0-	-0-	-0-	-0-	2,284,144	2,284,144
Trade accounts receivable	3,968,345	8,598,840	12,567,185	3,946,674	8,270,703	12,217,377
Less allowance for doubtful accounts	160,000	975,000	1,135,000	200,000	469,000	669,000
Net trade accounts receivable	3,808,345	7,623,840	11,432,185	3,746,674	7,801,703	11,548,377
Inventories:						
Fuel oil	-0-	4,119,444	4,119,444	-0-	4,325,838	4,325,838
Materials and supplies	602,300	2,120,349	2,722,649	537,618	1,991,947	2,529,565
Prepaid expenses and deferred charges	52,544	52,066	104,610	102,836	306,744	409,580
Total current assets	3,672,289	16,784,386	20,456,675	4,387,128	16,961,859	21,348,987
CASH AND CASH EQUIVALENTS RESTRICTED AS TO USE AND ALLOCATED FOR:						
Debt service	-0-	11,990,272	11,990,272	239,340	10,641,831	10,881,171
Construction	-0-	26,509,364	26,509,364	2,160,139	19,644,910	21,805,049
Self-insurance	-0-	1,620,000	1,620,000	589,060	965,687	1,554,747
Other restricted	-0-	15,930,260	15,930,260	769,133	17,898,515	18,667,648
	-0-	56,049,896	56,049,896	3,757,672	49,150,943	52,908,615
UTILITY PLANT, at cost						
Plant in service	137,611,716	264,758,992	422,370,708	137,909,976	258,106,505	396,016,481
Less accumulated depreciation	34,677,217	107,516,395	142,193,612	33,003,311	98,373,775	131,377,086
	102,934,499	177,242,597	280,177,096	104,906,665	159,732,730	264,639,395
Construction in process	1,303,192	14,902,026	16,205,218	506,334	9,119,146	9,625,480
	104,237,691	192,144,623	296,382,314	105,412,999	168,851,876	274,264,875
	$ 107,909,980	$ 264,978,905	$ 372,888,885	$ 113,557,799	$ 234,964,678	$ 348,522,477

IMPERIAL IRRIGATION DISTRICT

COMBINED BALANCE SHEETS, CONTINUED

	1987			1986		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
LIABILITIES AND DISTRICT EQUITY						
CURRENT LIABILITIES:						
Current maturities of long-term debt	$ 739,113	$ 3,403,740	$ 4,142,853	$ 736,514	$ 3,195,946	$ 3,932,460
Accounts payable	456,294	6,679,509	7,135,803	602,936	5,435,256	6,038,192
Accrued interest payable	713	724,403	725,116	1,136	758,985	760,121
Accrued compensation and payroll taxes	387,351	115,105	502,456	1,609,784	-0-	1,609,784
Accrued vacation and sick leave	1,065,522	1,159,561	2,225,083	948,871	854,194	1,803,065
Deferred revenues, current portion	1,011,535	-0-	1,011,535	991,492	-0-	991,492
Total current liabilities	3,660,528	12,082,318	15,742,846	4,890,733	10,244,381	15,135,114
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:						
Advances and deposits from customers	184,606	754,561	939,167	162,412	679,269	841,681
Refundable to customers	-0-	9,579,139	9,579,139	-0-	14,036,421	14,036,421
	184,606	10,333,700	10,518,306	162,412	14,715,690	14,878,102
LONG-TERM DEBT:						
Certificates of Participation	-0-	50,375,000	50,375,000	-0-	53,650,000	53,650,000
All-American Canal obligation	4,121,270	244,805	4,366,075	4,831,069	285,605	5,116,674
Obligations under capital leases	15,706	47,118	62,824	45,054	135,162	180,216
	4,136,976	50,666,923	54,803,899	4,876,123	54,070,767	58,946,890
DEFERRED CREDITS AND OTHER LIABILITIES:						
Other accrued expenses, noncurrent portion	2,450,000	385,000	2,835,000	7,450,000	385,000	7,835,000
Deferred revenues, noncurrent portion	273,426	-0-	273,426	298,062	-0-	298,062
Advances for construction	-0-	75,719	75,719	-0-	113,062	113,062
Accrued sick leave, noncurrent portion	910,149	907,496	1,817,645	935,050	996,372	1,931,422
	3,633,575	1,368,215	5,001,790	8,683,112	1,494,434	10,177,546
Total liabilities	11,615,685	74,451,156	86,066,841	18,612,380	80,525,272	99,137,652
DISTRICT EQUITY:						
Contributions in aid of construction	4,004,648	15,568,823	19,573,471	4,011,840	2,100,515	6,112,355
Retained earnings:						
Undesignated	88,123,806	123,014,577	211,138,383	87,175,908	103,555,276	190,731,184
Designated retained earnings—restricted assets	4,165,841	52,327,812	56,493,653	3,757,671	48,783,615	52,541,286
	92,289,647	175,342,389	267,632,036	90,933,579	152,338,891	243,272,470
Net unrealized loss on investments	-0-	(383,463)	(383,463)	-0-	-0-	-0-
Total District equity	96,294,295	190,527,749	286,822,044	94,945,419	154,439,406	249,384,825
	$ 107,909,980	$ 264,978,905	$ 372,888,885	$ 113,557,799	$ 234,964,678	$ 348,522,477

See accompanying notes to combined financial statements.

IMPERIAL IRRIGATION DISTRICT

COMBINED STATEMENTS OF OPERATIONS

Years Ended December 31, 1987 and 1986

	1987			1986		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
OPERATING REVENUES:						
Power sales	$ -0-	$ 101,797,234	$ 101,797,234	$ -0-	$ 87,270,500	$ 87,270,500
Water sales	23,492,601	-0-	23,492,601	21,513,848	-0-	21,513,848
Water availability charge	994,166	-0-	994,166	1,023,650	-0-	1,023,650
Interdepartmental charges:						
Use of All-American Canal	334,499	(334,499)	-0-	334,499	(334,499)	-0-
Power sales	(525,172)	525,172	-0-	(487,665)	487,665	-0-
Other	671,352	3,251,900	3,923,252	549,563	2,328,001	2,877,564
	24,967,446	105,239,807	130,207,253	22,933,895	89,751,667	112,685,562
OPERATING EXPENSES:						
Cost of fuel	-0-	13,237,640	13,237,640	-0-	11,345,679	11,345,679
Purchased power	-0-	44,183,895	44,183,895	-0-	34,044,221	34,044,221
Other power expenses	-0-	9,808,099	9,808,099	-0-	8,942,042	8,942,042
Operation and maintenance of All-American Canal	1,277,744	-0-	1,277,744	1,428,652	-0-	1,428,652
Operation and maintenance of irrigation system and dams	11,885,847	-0-	11,885,847	12,898,209	-0-	12,898,209
General and administration expense	8,255,487	8,705,862	16,961,349	13,550,919	10,752,760	24,303,679
Provision for depreciation	2,097,492	7,619,372	9,716,864	2,121,914	6,270,478	8,392,392
Loss on experimental farm	60,499	-0-	60,499	31,917	-0-	31,917
	23,577,069	83,554,868	107,131,937	30,031,611	71,355,180	101,386,791
Net operating income (loss)	1,390,377	21,684,939	23,075,316	(7,097,716)	18,396,487	11,298,771
NONOPERATING REVENUES (EXPENSES):						
Interest income	79,434	4,701,054	4,885,488	227,787	4,060,405	4,288,192
Interest expense	(8,743)	(3,487,495)	(3,601,238)	(8,973)	(4,632,123)	(4,641,096)
Interdepartmental interest charges	(105,000)	105,000	-0-	-0-	-0-	-0-
	(34,309)	1,318,559	1,284,250	218,814	(571,718)	(352,904)
Net income (loss)	$ 1,356,068	$ 23,003,498	$ 24,359,566	$ (6,878,902)	$ 17,824,769	$ 10,945,867

See accompanying notes to combined financial statements.

IMPERIAL IRRIGATION DISTRICT

COMBINED STATEMENTS OF CHANGES IN DISTRICT EQUITY

Years Ended December 31, 1987 and 1986

	1987		
	Water Department	Power Department	Combined
RETAINED EARNINGS:			
Balance at January 1, 1987	$ 90,933,579	$ 152,338,891	$ 243,272,470
Net income	1,356,068	23,003,498	24,359,566
Balance at December 31, 1987	92,289,647	175,342,389	267,632,036
CONTRIBUTIONS IN AID OF CONSTRUCTION:			
Balance at January 1, 1987	4,011,840	2,100,515	6,112,355
Contributions received	269,966	13,952,426	14,222,392
Less amortization	(277,158)	(484,118)	(761,276)
Balance at December 31, 1987	4,004,648	15,568,823	19,573,471
NET UNREALIZED LOSS ON INVESTMENTS	-0-	(383,463)	(383,463)
Total District equity at December 31, 1987	$ 96,294,295	$ 190,527,749	$ 286,822,044

	1986		
	Water Department	Power Department	Combined
RETAINED EARNINGS:			
Balance at January 1, 1986	$ 97,812,481	$ 134,514,122	$ 232,326,603
Net earnings (loss)	(6,878,902)	17,824,769	10,945,867
Balance at December 31, 1986	90,933,579	152,338,891	243,272,470
CONTRIBUTIONS IN AID OF CONSTRUCTION:			
Balance at January 1, 1986	4,279,703	1,110,581	5,390,284
Contributions received	2,329	1,089,246	1,091,575
Less amortization	(270,192)	(99,312)	(369,504)
Balance at December 31, 1986	4,011,840	2,100,515	6,112,355
Total District equity at December 31, 1986	$ 94,945,419	$ 154,439,406	$ 249,384,825

See accompanying notes to combined financial statements.

IMPERIAL IRRIGATION DISTRICT

COMBINED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1987 and 1986

	1987			1986		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
FINANCIAL RESOURCES PROVIDED BY:						
Operations:						
Net income (loss)	$ 1,356,068	$ 23,003,498	$ 24,359,566	$ (6,878,902)	$ 17,824,769	$ 10,945,867
Items which did not require outlay of working capital during the year —						
Depreciation and amortization	2,841,079	8,136,953	10,978,032	2,765,649	6,587,713	9,353,362
Total working capital provided (used) by operations	4,197,147	31,140,451	35,337,598	(4,113,253)	24,412,482	20,299,229
Decrease (increase) in construction in process	-0-	-0-	-0-	(50,785)	57,031,207	56,980,422
Increase in noncurrent portion of other accrued expenses and deferred revenues	-0-	-0-	-0-	5,448,164	385,000	5,833,164
Contributions in aid of construction	(7,192)	13,468,308	13,481,116	2,329	1,089,246	1,091,575
Increase (decrease) in liabilities payable from restricted assets	22,194	(4,381,990)	(4,359,796)	161,912	4,435,251	4,597,163
	4,212,149	40,226,769	44,438,918	1,448,367	87,353,186	88,801,553
FINANCIAL RESOURCES APPLIED TO:						
Decrease in noncurrent portion of other accrued expenses and deferred revenues	5,024,636	-0-	5,024,636	-0-	-0-	-0-
Addition to utility plant in service, net	868,913	25,646,820	26,515,733	4,285,603	75,368,710	79,654,313
Addition to construction in process	796,858	5,782,880	6,579,738	-0-	-0-	-0-
Increase (decrease) in noncurrent portion of accrued sick leave	24,901	88,876	113,777	(673,164)	(664,009)	(1,337,173)
Decrease in advances for construction	-0-	37,343	37,343	-0-	108,376	108,376
Decrease in long-term debt	739,147	3,403,844	4,142,991	736,479	3,195,843	3,932,322
Increase (decrease) in restricted assets	(3,757,672)	6,898,953	3,141,281	(3,457,413)	5,422,830	1,965,417
Net unrealized loss on investments	-0-	383,463	383,463	-0-	-0-	
	3,696,783	42,242,179	45,938,962	891,505	83,431,750	84,323,255
Increase (decrease) in working capital	$ 515,366	$ (2,015,410)	$ (1,500,044)	$ 556,862	$ 3,921,436	$ 4,478,298

(Continued)

IMPERIAL IRRIGATION DISTRICT

COMBINED STATEMENTS OF CHANGES IN FINANCIAL POSITION, CONTINUED

Years Ended December 31, 1987 and 1986

	1987			1986		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
SUMMARY OF CHANGES IN WORKING CAPITAL COMPONENTS:						
Increase (decrease) in current assets:						
Cash, cash equivalents and investments, at cost	$ (790,900)	$ 2,617,204	$ 1,826,304	$ (945,490)	$(1,517,262)	$(2,462,752)
Energy supply contract receivable	-0-	(2,284,144)	(2,284,144)	-0-	2,284,144	2,284,144
Accounts receivable, net	61,671	(177,863)	(116,192)	704,097	983,957	1,688,054
Inventories	84,682	(77,992)	(13,310)	1,888	407,829	409,717
Prepaid expenses and deferred charges	(50,292)	(254,678)	(304,970)	40,876	45,808	86,684
	(714,839)	(177,473)	(892,312)	(198,629)	2,204,476	2,005,847
DECREASE (INCREASE) IN CURRENT LIABILITIES:						
Current maturities of long-term debt	(2,599)	(207,794)	(210,393)	(2,368)	732,261	729,893
Accounts payable	146,642	(1,244,253)	(1,097,611)	1,090,778	831,610	1,922,388
Accrued interest payable	423	34,582	35,005	(375)	96,127	95,752
Accrued vacation and sick leave	(116,651)	(305,367)	(422,018)	(8,374)	56,962	48,588
Accrued compensation and payroll taxes	1,222,433	(115,105)	1,107,328	(331,940)	-0-	(331,940)
Deferred revenues	(20,043)	-0-	(20,043)	7,770	-0-	7,770
	1,230,205	(1,837,937)	(607,732)	755,491	1,716,960	2,472,451
Increase (decrease) in working capital	$ 515,366	$(2,015,410)	$(1,500,044)	$ 556,862	$ 3,921,436	$ 4,478,298

See accompanying notes to combined financial statements.

IMPERIAL IRRIGATION DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 1987 and 1986

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

Separate accounting records are maintained for the Water and Power Departments of the Imperial Irrigation District (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. Such account classifications used by the Power Department are specified by the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The account classifications of the Water Department were adopted to facilitate computations required by a provision of the All-American Canal contract discussed in note 6. The effects of interdepartmental transactions have not been eliminated because it is the intention of the Board of Directors of the District that the operating results of such departments be segregated for management review and rate setting purposes. Such segregation is also required for evidence of compliance with debt agreement provisions regarding electric revenue bonds and the Certificates of Participation.

Utility Plant

Utility plant is stated at cost, which includes labor, materials, purchased services and certain overhead items. Water and electric plant retirements are removed from the accounts at cost, together with the related accumulated depreciation balance. Any gains or losses resulting from retirements are recorded in other revenues.

The District has an undivided interest in power generation stations and transmission systems which are jointly owned with several utilities. Each participant provides its own construction financing. The District's proportionate share of construction and improvement cost for these 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. Such expenses incurred are included in the appropriate categories of operating expenses.

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.

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, who in turn resell such water to their respective citizens. These 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 which is based upon its acreage within the District. Customers of the Power Department are billed on a cyclic 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.

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 reduction of fuel costs billed.

Restricted Assets

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

Cash, Cash Equivalents and Investments

The District invests its idle cash on a daily basis. Certain of these investments are made in bank certificates of deposit and are considered cash equivalents. Other investments consist primarily of Federal mortgage notes.

Such investments are stated at the lower of cost or market value.

Reclassifications

Certain reclassifications have been made to amounts previously reported in 1986 to conform to the 1987 presentation.

IMPERIAL IRRIGATION DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED

Note 2 - Cash, Cash Equivalents and Investments

Investment policies of the District allow investments in obligations of U. S. Treasury and other Federal agencies, State Treasury and other state and local governmental agencies, bankers' acceptances, commercial paper, mortgage securities and the State Treasurer's Investment Pool.

Investments held by the District are reported at lower of cost or market. At December 31, 1987, the accompanying financial statements reflect a net unrealized loss of $383,463. This decline in value is largely due to increased interest rates at year-end over those earned on the investments. Management feels that such declines are temporary.

DEPOSITS	Carry Amount	Market Value
Insured	$ 380,858	$ 380,858
Uninsured — uncollateralized	8,933,868	8,933,868
	9,314,726	9,314,726
INVESTMENTS		
U. S. Government obligation — held by Trustee in District's name or held by District	12,854,495	12,854,495
U. S. Agency obligations — held by Trustee in District's name	12,139,950	12,139,950
Federally backed mortgages:		
Held by Trustee in District's name	12,626,222	12,626,222
Held by Trustee in other than District's name	2,115,346	2,115,346
Bankers' acceptances — uninsured and held by Trustee in District's name	700,000	700,000
Commercial paper — held by Trustee in District's name	5,476,653	5,476,653
Mutual funds — uncollateralized	1,900,291	1,900,291
Investment in State Treasurer's Investment Pool	1,000,000	1,000,000
	48,812,957	48,812,957
	$ 58,127,683	$ 58,127,683

Note 3 - 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.

Charges for use of buildings, vehicles and equipment are based upon pro rata distribution of costs of related maintenance operation and depreciation. The Water Department is charged for electric service furnished by the Power Department.

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.

IMPERIAL IRRIGATION DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED

Note 4 - Long-Term Debt

Long-term debt consists of the following:

1987

	Water Department		Power Department		
	Current portion	Long-term	Current portion	Long-term	Total
Certificates of Participation (note 5)	$ -0-	$ -0-	$ 3,275,000	$50,375,000	$53,650,000
All-American Canal obligation (note 6)	709,819	4,121,270	40,800	244,805	5,116,694
Obligation under capital lease (note 7)	29,294	15,706	87,940	47,118	180,058
	$ 739,113	$ 4,136,976	$ 3,403,740	$50,666,923	$58,946,752

1986

	Water Department		Power Department		
	Current portion	Long-term	Current portion	Long-term	Total
Certificates of Participation (note 5)	$ -0-	$ -0-	$ 3,075,000	$53,650,000	$56,725,000
All-American Canal obligation (note 6)	709,799	4,831,069	40,801	285,605	5,867,274
Obligation under capital lease (note 7)	26,715	45,054	80,145	135,162	287,076
	$ 736,514	$ 4,876,123	$ 3,195,946	$54,070,767	$62,879,350

Note 5-Certificates of Participation

The proceeds from a $65,000,000 issue of Certificates of Participation (Certificates) were used to finance: the District's ownership interest in a portion of the Southwest Powerlink between the Palo Verde Nuclear Power Plant (Palo Verde) and its Imperial Valley Substation, transmission facilities between Palo Verde and the Imperial Valley Substation, equipment to facilitate the controlling and dispatching of the District's power resources, and certain hydroelectric generating facilities to be utilized by the District.

The Certificates are payable annually on May 1. Interest is payable semiannually on May 1 and November 1, with interest rates ranging from 5.0% to 8.6%.

Principal payments are due as follows:

Due Date	Principal Amount
May 1, 1988	$ 3,275,000
May 1, 1989	3,505,000
May 1, 1990	3,760,000
May 1, 1991	4,045,000
May 1, 1992	4,355,000
Thereafter	34,710,000
	$53,650,000

Note 6 - All-American Canal Contract

Pursuant to the terms of the Boulder Canyon Project, the All-American Canal contract dated December 1, 1932, and the amendment and supplement to that contract dated March 4, 1952, the District assumed an initial obligation of $25,020,000 to the Federal Government. This amount represents the District's share of the cost of construction of the All-American Canal System. This obligation has been allocated to the Water and Power Departments based on the relative cost of their plant located on the All-American Canal System. Except for the combined annual payments of $750,600 through 1994, no other amounts are due to the Federal Government for water supplied to the District. The contract contains no provision for the payment of interest by the District nor has any rate been imputed. The unpaid balance at December 31, 1987 and 1986 was $5,116,694 and $5,867,274, respectively, as set forth in note 3.

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

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

Note 7 - Capital Leases

The District leases certain data processing equipment for a term of five years. The lease has been considered a capital lease, and accordingly, the amortization of the cost is recorded as depreciation expense.

The following is a schedule by year of minimum lease payments under the capital lease commitment, together with the present value of the net minimum lease payments:

	1987	1986
	Computer and word processing equipment	Computer and word processing equipment
1987	$ -0-	$ 131,640
1988	131,640	131,640
1989	65,820	65,820
Total minimum lease payments	197,460	329,100
Less amount representing interest	17,402	42,024
Present value of minimum lease payments	$ 180,058	$ 287,076

IMPERIAL IRRIGATION DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 8 - Employee Pension Plan

The District has a defined benefit pension plan (the Plan), which it funds, covering substantially all of its employees. Under the terms of the Plan, employees are eligible to participate after completing six months of continuous service. Employees become 20% vested in the Plan after four years of service and continue to vest 20% for every additional four years of service.

Contributions made by the District and retirement benefits vary depending upon the age of the employee at the date of entry into the Plan, the average basic salary attained and the employee's retirement age.

Amounts charged to operations were $1,836,078 and $1,632,028 for 1987 and 1986, respectively. Recent actuarial information is as follows:

	JANUARY 1	
	1987	1986
Actuarial present value of accumulated Plan benefits:		
Vested	$ 11,853,298	$ 11,310,580
Nonvested	1,296,678	2,705,220
Total	$ 13,069,817	$ 14,015,800
Net assets available for Plan benefits	$ 18,411,037	$ 17,078,197

An assumed rate of return of 8% is used to determine the actuarial present value of accumulated Plan benefits.

Note 9 - Utility Plant

Plant in service is comprised of the following:

	1987			1986		
	Water Department	Power Department	Combined	Water Department	Power Department	Combined
Land and land rights	$ 5,203,935	$ 2,655,937	$ 7,859,872	$ 5,170,851	$ 2,641,627	$ 7,812,478
Structures and improvements	3,195,612	30,573,187	33,768,799	3,205,240	30,565,155	33,770,395
Canals	63,591,792	-0-	63,591,792	63,072,650	-0-	63,072,650
Drainage	27,706,002	-0-	27,706,002	26,952,097	-0-	26,952,097
All-American Canal	23,863,478	-0-	23,863,478	23,863,478	-0-	23,863,478
Conservation equipment	813,554	-0-	813,554	807,397	-0-	807,397
Dredges and field equipment	4,610,284	546,661	5,156,945	4,590,324	454,844	5,045,168
Automobiles and trucks	5,257,231	4,970,741	10,227,972	6,849,930	2,210,636	9,060,566
Other plant and equipment	3,369,828	23,549,425	26,919,253	3,398,009	16,948,065	20,346,074
Steam plant equipment	-0-	25,426,724	25,426,724	-0-	20,713,110	20,713,110
Hydroelectric generating equipment	-0-	20,700,174	20,700,174	-0-	19,341,149	19,341,149
Gas turbines	-0-	21,066,225	21,066,225	-0-	21,065,163	21,065,163
Transmission plant	-0-	65,661,321	65,661,321	-0-	62,016,753	62,016,753
Distribution plant	-0-	86,012,851	86,012,851	-0-	78,554,257	78,554,257
Reservoirs and dams	-0-	3,595,746	3,595,746	-0-	3,595,746	3,595,746
Plant in service	$ 137,611,716	$ 284,758,992	$ 422,370,708	$ 137,909,976	$ 258,106,505	$ 396,016,481

Depreciation expense was as follows:

	1987 Water Department	1987 Power Department	1987 Combined	1986 Water Department	1986 Power Department	1986 Combined
Included in operation and maintenance expenses	$ 743,587	$ 517,581	$ 1,261,168	$ 643,735	$ 317,235	$ 960,970
Provision for depreciation	2,097,492	7,619,372	9,716,864	2,121,914	6,270,478	8,392,392
	$ 2,841,079	$ 8,136,953	$ 10,978,032	$ 2,765,649	$ 6,587,713	$ 9,353,362

During 1987, the District capitalized interest charges in the amount of approximately $960,000 and $65,000 for the Power and Water Departments, respectively.

Note 10 - Energy Supply Contract Receivable

The District has entered into an energy supply contract with El Paso Electric Company. The agreement resulted in an immediate refund of approximately $2.3 million in 1986 and an additional reduction in energy costs of $141,000 per month for the period from January 1, 1987 through 1991. The agreement, which terminates April 30, 2002, reduces the fixed kilowatt per hour rate to $19.70 from $29.17 per kilowatt hour.

Note 11 - 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 financial condition.

Note 12 - Commitments and Contingencies

Self-Insurance

The District is self-insured for workers' compensation claims and employee medical care benefits. At December 31, 1987, the District has accrued $835,000 for estimated claims to be paid in the future. Such amounts have been included in other accrued expenses in the accompanying combined balance sheets.

Take or Pay Contract

The District has entered into an energy and capacity contract which involves a substantial commitment with Southern California Public Power Authority (SCPPA), a public entity organized under the laws of the state of California. Under the contract, the District purchased 6.5% of the energy generated by SCPPA's 5.91% ownership in the Palo Verde Nuclear Project, a nuclear-fueled generating station. Under the agreement, the District will make certain minimum payments, whether or not the District receives power. The District's estimate of minimum payments due under this agreement for the next five years based upon debt service requirements is as follows:

1988	$5,736,000
1989	5,736,000
1990	5,736,000
1991	5,736,000
1992	5,736,000

The District makes monthly payments to SCPPA for its portion of costs, which include charges to cover decommissioning. Such charges are recorded by the District as cost of fuel.

Heber Binary Plant

During 1987, the majority owner and operator of the Heber Binary Plant (the Plant) decided, for economic reasons, to close the Plant. The future of the Plant is unknown at this time; however, sales negotiations with several prospective purchasers have commenced. At December 31, 1987, the District's investment in the Plant was approximately $8,000,000 and is included in the Power Department's Plant in service.

Produced by

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