

MERCED IRRIGATION DISTRICT

FINANCIAL STATEMENTS

For the 15 month period ended March 31, 2013

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MERCED IRRIGATION DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Merced Irrigation District
Merced, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Merced Irrigation District (the District) as of and for the 15 month period ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of March 31, 2013, and the changes in financial position and cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Period

The District changed its financial year end from December 31 to March 31 to better reflect the operating and construction cycles of the District. Accordingly, the financial statements presented reflect the 15 month period ended March 31, 2013.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the period ended March 31, 2013, the District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedules of Funding Progress on pages 3-9 and 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting.

Burr Pilger Mayer, Inc.

Burr Pilger Mayer, Inc.
San Jose, California
June 25, 2013



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fifteen Months Ended March 31, 2013

Management's discussion and analysis of the Merced Irrigation District's (the District) financial performance provides an overview of the District's activities as well as its financial condition for the fifteen months ended March 31, 2013. The District's 2011 and 2010 financial results have been presented for purposes of providing comparative data, but are for the calendar year. The prior year numbers have been restated to match the new presentation required in GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities". For additional information on GASB Statement No. 65, see Note 1 of the financial statements under Basis of Accounting. This discussion and analysis should be read in conjunction with the financial statements, including the notes to the financial statements, beginning on page 11.

GASB Statement No. 63 changes the name and format of required audited financial reports. What was historically called the Statement of Net Assets is now referred to as the Statement of Net Position. The Statement of Net Position presents a combined assets and deferred outflows of resources less a combined liabilities and deferred inflows of resources resulting with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The Statement of Revenue, Expenses, and Changes in Fund Net Position measure the success of the District's operations during the year and determine whether the District has recovered its costs through user fees and other charges, resulting in the changes in net assets.

The Statement of Cash Flows provides information about the District's cash receipts and cash payments resulting from operations, investing, and financing activities for the year.

Background

The District was established to provide irrigation water to farms in the central portion of the San Joaquin Valley located around the city of Merced. The District was organized under the California Water Code in 1919. Today, the District is comprised of 5 major operational enterprises: Water Operations, Parks and Recreation, Hydroelectric Project, Electric Services, and Storm Drainage.

The District provides surface irrigation water to approximately 100,000 acres within its 164,000 acre boundary. In addition, the District partially serves agricultural lands outside its boundary along with portions of adjacent water districts, such as Le Grand Athlone Water District and Chowchilla Water District, but within its 420,000 acre sphere of influence (SOI), which encompasses all lands within the Merced Groundwater Basin located in the eastern part of Merced County, in addition to lands adjacent to its boundary north of the Merced River. The District also provides up to 26,400 acre feet of irrigation water to Stevenson Water District and 15,000 acre feet to Merced National Wildlife Refuge at no cost, both located westerly of the District. The District distributes water through 825 miles of earthen and concrete lined canals, and pipelines. The District also owns 220 well sites within its boundary, of which 170 wells are on standby and ready for use in dry years. In 2012, the District delivered 315,295 acre feet of irrigation water to approximately 2,150 fields farmed by 1,550 customers.

MERCED IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition to providing irrigation water, the District also uses portions of its existing irrigation distribution system for urban storm drainage by routing natural stream flows and runoff from urban developments, away from populated areas. The District formed the Merced Irrigation District Drainage District #1 (MIDDID#1) in 1994. At the end of 2012, there were approximately 14,960 residential, commercial, industrial, and government parcels located primarily within the urban area of the District that received drainage service.

The District owns, operates and maintains five recreation areas adjacent to the lakes behind New Exchequer and McSwain Dams. The Lake McSwain Recreation Area is located adjacent to Lake McSwain. McClure Point, Barrett Cove, Horseshoe Bend and Bagby Recreation Areas are all located adjacent to Lake McClure. A total of six boat launch facilities are available in the Parks system. The District is in the process of building a 7th boat launch facility on Lake McClure at McClure Point. The completion date is dependent on the State release of grant funds approved for the project. Over 600 campsites are available to the public on a year-round basis. Floating marinas are located on Lake McSwain and in two locations on Lake McClure for the boating public. Recreational activities enjoyed in the recreation areas include fishing, boating, swimming, camping, hiking and bicycling. In 2012, the various Parks locations had approximately 435,000 combined visitor days. In addition, the District maintains three fishing access locations on Merced River downstream from the lakes.

In 2011 the District formed the Twin Lakes Management Company, Inc (TLMC) as a separate division to operate the marina and lake recreation concessions on both Lake McSwain and Lake McClure. These concessions had previously been operated by two different private company entities under Special Use Permit Agreements with the District. Both operators were determined to be in default of those Agreements, and the decision was made to terminate the Agreements and for the District to take direct operational control of the operations. The Twin Lakes Management Company and the District reached agreement with both parties to purchase certain assets and interests and took over full operational responsibility in June 2011.

The District owns, operates and maintains the New Exchequer and McSwain dams, reservoirs, and hydroelectric facilities. These are the District's primary water storage facilities on the Merced River. They are located in the foothills on the western slope of the Sierra Nevada mountain range, approximately 23 miles northeast of Merced. The two dams and reservoirs are integral parts of the 1964 Merced River Development Project, and are licensed by the Federal Energy Regulatory Commission (FERC). New Exchequer Reservoir (Lake McClure) has a maximum storage capacity of 1,024,600 acre feet, while McSwain Reservoir (Lake McSwain) has a storage capacity of 9,730 acre feet. The New Exchequer Dam Project was completed in 1967 as a multi-purpose facility providing facilities and water for all beneficial uses, including domestic and irrigation water, flood control, hydroelectric power generation, recreation, and the environment.

The District is authorized to act as an electric utility under the California Water Code. The District has owned and operated hydroelectric generating facilities on the Merced River since 1927. In 1995, the District exercised its authority to sell power to retail electric customers. The District offers its customers full electric service including power supply and delivery to the customer. Since 1996, the District has connected 7,983 customers to the District's electric system. Electric peak demand at the height of the 2012 summer season was approximately 98.0 megawatts.

Required Financial Statements

This annual financial report consists of three parts: Management's Discussion and Analysis, the Basic Financial Statements, and Supplementary Information. The District's financial statements include the (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Fund Net Position, and (3) Statement of Cash Flows. The financial statements are prepared using the accrual basis of accounting.

MERCED IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial data provided and are an integral part of the District's financial statements. The District provides a presentation of both the combined financial statements as well as supplemental combining financial statements which portray the individual major component funds.

The Financial Statements of the District report information about the District using accounting methods similar to those used by companies in the private sector. These statements offer short-term and long-term financial information about its activities. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and provides information about the nature and amounts of investments in assets and obligations to District creditors as liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. This statement measures the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its rates, fees, capacity and other charges. The District's profitability and credit worthiness can also be determined from this statement. It is prepared using the accrual basis of accounting by recognizing revenues in the period they are earned and expenses in the period they are incurred without regard to the period of cash receipt or payment.

The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period as well as net changes in cash resulting from operations, investing, and financing activities. The statement explains where cash came from and where cash was used and the change in the cash balance during the reporting period.

Financial Highlights

- The District's total assets increased by \$15.3 million in the fifteen months ending March 31, 2013. The new category of deferred outflows of resources, which when 2011 is restated, increased by \$8.8 million due to the change in derivative financial instruments which increased by \$9.1 million. During 2013 the District invested \$24.5 million as allowed by the District's investment policy.
- Total liabilities decreased by \$4.3 million which includes reductions in liabilities due to the change in fiscal year. Two of these changes are a \$1.2 million reduction in interest payable and a \$700,000 reduction in permission fees. Interest payments are made in March for activity through March thus no bond interest is payable as of March 31, 2013. The new category of deferred inflows of resources, which when 2011 is restated, increased by \$8.3 million due to the change in derivative financial instruments which increased by \$9.1 million.
- The District continued its efforts to obtain a new operating license for the hydroelectric project from the Federal Energy Regulatory Commission (FERC). The District has expended \$20.4 million on relicensing efforts as of March 31, 2013. The current license expires on February 28, 2014. The District fully expects to be granted a new license by the FERC.
- Operating revenue of \$90.1 million and operating expense of \$79.7 million resulted in net income from operations of \$10.4 million. Net non-operating expense of \$3.1 million is the result of total non-operating revenue of \$3.0 million offset by interest expense of \$6.1 million. The District also received capital contributions totaling \$9.1 million.
- The District's total cash, cash equivalents and investments increased by \$5.3 million in the fifteen (15) months ending March 31, 2013. This was primarily due to reduction in power purchase expenses and amounts paid for goods and services.

MERCED IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the District

The District's Condensed Statements of Net Position are as follows:

	<u>3/31/2013</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
ASSETS			
Capital assets, net	\$ 151,856,544	\$ 140,510,355	\$ 137,943,007
Other non-current assets	53,070,013	27,128,560	21,944,318
Current assets	<u>50,385,746</u>	<u>72,378,711</u>	<u>72,876,287</u>
Total assets	<u><u>255,312,303</u></u>	<u><u>240,017,626</u></u>	<u><u>232,763,612</u></u>
DEFERRED OUTFLOWS OF RESOURCES			
Long-term debt refunding	2,832,374	3,184,260	3,483,449
Accumulated decrease in fair value of hedging derivatives	<u>(460,945)</u>	<u>(9,636,581)</u>	<u>(10,960,136)</u>
Total deferred outflows of resources	<u><u>2,371,429</u></u>	<u><u>(6,452,321)</u></u>	<u><u>(7,476,687)</u></u>
Total assets and deferred outflows of resources	<u><u>\$ 257,683,732</u></u>	<u><u>\$ 233,565,305</u></u>	<u><u>\$ 225,286,925</u></u>
LIABILITIES			
Long-term liabilities	\$ 122,473,318	\$ 123,842,069	\$ 126,095,633
Other liabilities	3,416,591	7,115,441	7,576,408
Current liabilities	<u>16,102,296</u>	<u>10,071,037</u>	<u>11,900,750</u>
Total liabilities	<u><u>141,992,205</u></u>	<u><u>141,028,547</u></u>	<u><u>145,572,791</u></u>
DEFERRED INFLOWS OF RESOURCES			
Public purpose revenues	1,234,926	2,088,937	2,181,753
Power cost reductions	800,000	800,000	800,000
Accumulated increase in fair value of hedging derivatives	<u>(460,945)</u>	<u>(9,636,581)</u>	<u>(10,960,136)</u>
Total deferred inflows of resources	<u><u>1,573,981</u></u>	<u><u>(6,747,644)</u></u>	<u><u>(7,978,383)</u></u>
NET POSITION			
Invested in capital assets	70,364,183	56,940,683	51,453,212
Restricted	1,544,100	1,744,100	1,844,100
Unrestricted	<u>42,209,263</u>	<u>40,599,619</u>	<u>34,395,205</u>
Total net position	<u><u>114,117,546</u></u>	<u><u>99,284,402</u></u>	<u><u>87,692,517</u></u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 257,683,732</u></u>	<u><u>\$ 233,565,305</u></u>	<u><u>\$ 225,286,925</u></u>

MERCED IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED CAPITAL ASSETS DETAIL

	3/31/2013	12/31/2011	12/31/2010
Distribution system, net	\$ 81,867,811	\$ 78,292,005	\$ 80,309,612
Land and easements	13,144,380	13,144,380	13,144,380
Structures and improvements, net	25,889,673	26,816,013	27,656,705
Equipment, net	5,250,647	5,067,745	5,174,338
Intangible assets, net	1,305,963	1,524,256	1,631,519
Construction in progress	24,398,070	15,665,954	10,026,453
	<u>\$ 151,856,544</u>	<u>\$ 140,510,353</u>	<u>\$ 137,943,007</u>

Significant Capital Asset Activity

Overall, capital assets increased by \$11.3 million as of March 31, 2013 compared to \$2.6 million at December 31, 2011 due to increased capital project spending for the electric system, hydroelectric system, and the water distribution system. Although capital assets themselves increased by \$17.7 million, the annual depreciation expense incurred offset the increase. The District completed improvements to its water distribution system in the fifteen months of January 1, 2012 through March 31, 2013 in conjunction with State funded Highway improvements;

For additional information about the District's capital assets, see Note 3 to the financial statements

Significant Long-term Debt Activity

Long-term debt decreased by \$2.0 million in the fifteen (15) months ending March 31, 2013 as compared to a decrease in 2011 of \$2.1 million. At March 31, 2013 the District had long-term debt outstanding of \$119.0 million as compared to \$121.1 million in 2011 and \$123.2 million in 2009. The current amount is comprised of \$3.9 million of revenue bonds, certificates of participation and capital appreciation certificates of participation. The District refunded \$10.2 million of the 2005 Revenue Certificates of Participation in September 2012 and recently refunded and defeased the 2003 Revenue Certificates of Participation, which occurred as a subsequent event to the financial statements.

For additional information about the District's long-term debt or subsequent events, see Notes 5 and 15 of the financial statements.

Significant Net Position Activity

The District's net investment in capital assets increased by \$13.4 million for the fifteen (15) months ending March 31, 2013 as compared to an increase of \$5.5 million in the twelve months ending December 31, 2011. This corresponds with the decrease in the District's capital related debt which offsets this value. The balance of net position is comprised of \$1.5 million of restricted net position which are subject to external restrictions on their use, and \$42.2 million of unrestricted net position. The District's assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by \$114.1 million.

MERCED IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The District's Condensed Statements of Revenues, Expenses, and Changes in Fund Net Position are as follows:

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

	15 Months 3/31/2013	12 Months 12/31/2011	12 Months 12/31/2010
Operating revenue	\$ 90,101,155	\$ 71,461,864	\$ 73,578,565
Operating expense	<u>79,743,407</u>	<u>62,661,210</u>	<u>67,619,267</u>
Net income from operations	10,357,748	8,800,654	5,959,298
Non-operating revenue (expense)	<u>(3,146,546)</u>	<u>(1,921,836)</u>	<u>(1,595,237)</u>
Net income before capital contributions	7,211,202	6,878,818	4,364,061
Capital contributions	<u>9,132,946</u>	<u>4,713,067</u>	<u>2,389,411</u>
Change in net position	<u>16,344,148</u>	<u>11,591,885</u>	<u>6,753,472</u>
Net position, beginning of year	<u>97,773,398</u>	<u>87,692,517</u>	<u>80,939,045</u>
Net position, end of year	<u>\$ 114,117,546</u>	<u>\$ 99,284,402</u>	<u>\$ 87,692,517</u>

Net income from operations of \$10.4 million for the fifteen (15) months ending March 31, 2013 increased from \$8.8 million net income from operations for the twelve (12) months ending December 31, 2011. The \$1.6 million dollar increase was primarily due the reporting period covering fifteen months from January 1, 2012 to March 31, 2013 compared to a twelve (12) month reporting period of January 1, 2011 to December 31, 2011 combined with a decrease in power purchase costs as NP-15 rates remained at historical lows for the fifteen months ending March 31, 2013. The \$0.6 million increase in 2011 from 2010 was primarily due to a decrease in power purchase costs, decrease in New Municipal Departing Load cost, and offset by a decrease in water transfer revenues. In the fifteen (15) months ending March 31, 2013 net non-operating expense of \$3.1 million is the result of non-operating revenue of \$3.0 million offset by interest expense of \$6.1 million. Capital contribution revenue of \$9.1 million is comprised of non-cash developer contributions and third-party cash proceeds used for capital projects. The increase in capital contribution revenue of \$4.4 million for the fifteen (15) months ending March 31, 2013 is due to continued increased hydroelectric infrastructure improvements and the completion of the water resources infrastructure improvement projects partially funded through matching state grants.

MERCED IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Rates

In the 2010-2011 rainfall season (typically October-April) the Lake McClure watershed received above average runoff from rainfall and snowpack. The above average runoff inflow combined with high carryover water storage in Lake McClure from the prior year allowed for sufficient water supplies to meet MID's irrigation customers full needs in 2011 and allow for near maximum carryover storage in Lake McClure on October 31, 2011. Conversely as compared to the prior rainfall season, 2011-2012 rainfall season provided below average runoff into Lake McClure from rainfall and snowpack. Despite the below average runoff, characterized as a dry year, the near maximum carryover storage from the prior year allowed for sufficient water supplies to meet MID's irrigation customers full needs in 2012. In addition MID provided a spring pulse flow in the Merced River through a water transfer to United States Bureau of Reclamation. Furthermore, the District completed two out of District water transfers with one involving lands within its Sphere of Influence. The District also sold pre-1914 water collected in Lake Yosemite and Bear Creek to the East Bear Creek Unit of the San Luis Wildlife Refuge. The District exercised moderate controlled groundwater pumping to optimize its system efficiency and reduce operational discharges to gain the highest possible carryover storage for 2013. The District maintained its water rate of \$18.25 per AF for billings and use up to 2.5 AF-acre, while increasing the water rate to \$23.25 for water billings and use above 2.5 AF/acre. The District continued cost cutting measures while simultaneously securing outside revenues from water sales and water transfers outside of the District, thereby allowing the District to charge water rates below its actual Cost of Service as it has for many years.

The District maintained its risk management program with the goal of reducing spot market energy price volatility and providing a higher level of energy cost certainty, thereby reducing energy price risk to its customers. The district continues to attract and acquire new customers mainly due to its lower rates and high reliability as compared to the investor owned utility that serves the same geographic area as the District. The District experienced a slight increase in total customer usage in 2012, with electric load increasing by 1% above 2011.

In 2011, the California Legislature passed SBX1-2. The legislation requires all public utilities to procure 33 percent of their electricity through renewable sources of energy, known commonly as "RPS" or Renewable Portfolio Standards. The California Energy Commission is currently drafting regulations based on the legislation. Based on our best analysis at this time, we expect MID may have to spend upward of \$40 million between now and 2020 to comply with the 33 percent RPS requirement.

With the formation of Twin Lakes Management Company (TLMC) in 2011, the new management team at TLMC has focused on improving customer services and addressing a number of deferred maintenance needs at the facilities. New rate structures and customer services, along with a continuing focus on customer satisfaction, are expected to increase customer visitor days and revenues in the future.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to Kandi Ramos, Controller, P.O. Box 2288, Merced, CA 95344-0288 or please call (209) 722-5761.

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BASIC FINANCIAL STATEMENTS

MERCED IRRIGATION DISTRICT

STATEMENT OF NET POSITION

March 31, 2013

ASSETS

Capital assets:	
Non-depreciable	\$ 37,552,550
Depreciable	114,303,994
Capital assets, net	<u>151,856,544</u>
Other non-current assets:	
Investments	22,622,314
Deferred relicense costs	20,422,658
Debt issuance costs	1,913,133
Regulatory costs for future recovery	8,111,908
Total other noncurrent assets	<u>53,070,013</u>
Current assets:	
Cash and cash equivalents	19,423,281
Investments	1,751,886
Accounts receivable, net	6,494,057
Due from other governmental agencies	1,774,110
Accrued interest and taxes receivable	107,189
Inventory	4,333,184
Prepaid expenses and other current assets	795,611
Restricted cash and cash equivalents	15,706,428
Total current assets	<u>50,385,746</u>
Total assets	<u>255,312,303</u>

DEFERRED OUTFLOWS OF RESOURCES

Long-term debt refundings	2,832,374
Accumulated decrease in fair value of hedging derivatives	(460,945)
Total deferred outflows of resources	<u>2,371,429</u>
Total assets and deferred outflows of resources	<u>\$ 257,683,732</u>

The accompanying notes are an integral part of these financial statements.

MERCED IRRIGATION DISTRICT
STATEMENT OF NET POSITION (CONTINUED)

March 31, 2013

LIABILITIES

Non-current liabilities	
Long-term liabilities	\$ 122,473,318
Unearned revenue	2,750,000
Deposits	666,591
Total non-current liabilities	<u>125,889,909</u>
Current liabilities:	
Accounts payable	1,300,434
Accrued liabilities	4,525,367
Unearned revenue	6,333,261
Accrued interest payable	18,234
Current portion of long-term liabilities	3,925,000
Total current liabilities	<u>16,102,296</u>
Total liabilities	<u>141,992,205</u>

DEFERRED INFLOWS OF RESOURCES

Public purpose revenues	1,234,926
Power cost reductions	800,000
Accumulated increase in fair value of hedging derivatives	(460,945)
Total deferred inflows of resources	<u>1,573,981</u>

NET POSITION

Net investment in capital assets	70,364,183
Restricted	1,544,100
Unrestricted	42,209,263
Total net position	<u>114,117,546</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 257,683,732</u>

The accompanying notes are an integral part of these financial statements.

MERCED IRRIGATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the 15 month period ended March 31, 2013

Operating revenues:	
Electric sales and services	\$ 60,790,788
Water sales and services	10,312,735
Hydroelectric contractual services	9,864,859
Water transfers	5,701,325
Recreation fees	1,830,125
Storm drainage fees	12,812
Concessionaire revenue	1,588,511
Total operating revenues	<u>90,101,155</u>
Operating expenses:	
Purchase of power	29,989,929
Water distribution	13,961,533
Electric transmission and distribution	17,537,977
Recreation	2,896,704
Concessionaire	378,088
Storm drainage	14,552
Administrative and general	7,882,331
Depreciation and amortization	7,082,293
Total operating expenses	<u>79,743,407</u>
Net income from operations	<u>10,357,748</u>
Non-operating revenue (expenses):	
Property taxes	2,059,195
Interest income	207,286
Other non-operating income	753,778
Gain on disposal of capital assets	3,000
Interest expense	(6,169,805)
Total non-operating revenue (expenses)	<u>(3,146,546)</u>
Net income before capital contributions	<u>7,211,202</u>
Capital contributions	<u>9,132,946</u>
Total capital contributions	<u>9,132,946</u>
Change in net position	16,344,148
Net position, beginning of period, as restated	<u>97,773,398</u>
Net position, end of period	<u>\$ 114,117,546</u>

The accompanying notes are an integral part of these financial statements.

MERCED IRRIGATION DISTRICT

STATEMENT OF CASH FLOWS

For the 15 month period ended March 31, 2013

Cash flows from operating activities:	
Cash receipts from customers	\$ 99,718,850
Cash paid to suppliers for goods and services	(67,906,100)
Cash paid to employees for services	(12,648,183)
Net cash provided by operating activities	<u>19,164,567</u>
Cash flows from noncapital financing activities:	
Property taxes received	3,054,340
Relicense costs incurred	(2,880,215)
Other income, net of other expenses	718,778
Net cash provided by noncapital financing activities	<u>892,903</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(12,634,033)
Proceeds from sale of equipment	3,000
Capital contributions from grants	3,775,130
Proceeds from issuance of debt	10,235,000
Principal payments on long-term debt	(14,609,827)
Interest payments on long-term debt	(6,988,426)
Net cash used by capital and related financing activities	<u>(20,219,156)</u>
Cash flows from investing activities:	
Purchase of investment securities	(24,338,370)
Interest received on investments	75,634
Net cash used in investing activities	<u>(24,262,736)</u>
Decrease in cash and cash equivalents	(24,424,422)
Cash and cash equivalents, beginning of period	<u>59,554,131</u>
Cash and cash equivalents, end of period	<u>\$ 35,129,709</u>
Cash and cash equivalents consist of the following:	
Unrestricted	\$ 19,423,281
Restricted	15,706,428
	<u>\$ 35,129,709</u>

The accompanying notes are an integral part of these financial statements.

MERCED IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)

For the 15 month period ended March 31, 2013

Reconciliation of the net income from operations to
net cash provided by operating activities

Net income from operations	\$ 10,357,748
Adjustments to reconcile net income from operations to net cash provided by operating activities:	
Depreciation and amortization	7,082,293
Changes in operating assets and liabilities:	
Accounts receivable	(883,814)
Due from other governmental agencies	(20,940)
Inventory	(66,300)
Prepaid expenses and other current assets	(281,399)
Accounts payable	(631,197)
Accrued expenses	(1,392,211)
Unearned revenue	5,848,306
Due to/from other funds	(396,297)
Deposits	(359,913)
Deferred inflow of resources	(854,011)
Accrued postemployment benefits	739,036
Accrued compensated absences	23,266
Net cash provided by operating activities	\$ 19,164,567

Supplemental disclosures of cash flow information:

Noncash investing, capital and financing activities:	
Receipt of contributed electric system assets from developers	\$ 5,357,816
Change in derivative financial instruments	\$ 9,175,636

The accompanying notes are an integral part of these financial statements.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

1. Reporting Entity and Summary of Significant Accounting Policies

The basic financial statements of the Merced Irrigation District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As allowed by the GASB, the District has elected to apply to its proprietary activities Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989, where not in conflict with GASB pronouncements. The more significant of the District's accounting policies are described below.

Reporting Entity

The District was organized in 1919 under the California Water Code to provide agricultural irrigation water to the farmers in the central portion of the San Joaquin Valley in and around eastern Merced County. The District owns and operates two dams and related reservoirs, hydroelectric generation facilities, recreation, and fish enhancement facilities in Merced and Mariposa Counties. The District also provides urban storm drainage and retail electric services in Merced County. The District is governed by a five member Board of Directors elected by the voters within the District for staggered, four year terms, every two years. As required by GAAP, the accompanying basic financial statements present the District and its component units. The component units discussed below are included in the District's reporting entity because of the significance of their operational and financial relationship with the District.

The District has created the Merced Irrigation District Public Facilities Financing Corporation (MIDPFFC) to provide assistance to the District in the issuance of debt. The District also established the Merced Irrigation District Drainage Improvement District #1 (MIDDID#1) to make annual assessments against properties that drain into a District facility for storm water drainage construction and maintenance expenses. The Twin Lakes Management Company, Inc. (TLMC) was created by the District to operate the marina and lake recreation concessions on Lake McSwain and Lake McClure.

Although legally separate from the District, the MIDPFFC, the MIDDID#1, and the TLMC are reported as if they were part of the primary government because they share a common Board of Directors with the District and their sole purposes are to provide financing to the District under the debt issuance documents of the District, construction and maintenance of storm water drainage facilities, and concession management on behalf of the District at Lake McSwain and Lake McClure, respectively. Debt issued by the MIDPFFC is reflected as debt of the District in these financial statements. The MIDPFFC, the MIDDID#1 and the TLMC do not issue separate financial statements. The MIDPFFC has no other transactions.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Participation in Joint Power Authorities

The San Joaquin River Group Authority (SJRGGA) was created in September, 1996 under a joint exercise of powers agreement between the District and the Modesto Irrigation District, Oakdale Irrigation District, South San Joaquin Irrigation District, Turlock Irrigation District, the City and County of San Francisco, Friant Water Authority, and the San Joaquin River Exchange Contractors Water Authority (the Parties) to represent the Parties as necessary in proceedings relating to the investigation, monitoring, planning, control, mitigation of water flow and non-flow issues, and to enhance the environmental conditions in the Delta which impact the parties. The SJRGGA is governed by an eight-member commission made up of one member of the Governing Board of each Party. The agreement terminates in December 2036, unless extended or terminated by the Parties. Upon termination of the Agreement, all of the SJRGGA assets will be returned to the respective Parties in the proportion to the contribution the Party made. Equipment, furniture or furnishings will be returned to the contributing Party. Any other property shall be converted to cash and distributed equally among the Parties.

The District is also a member of the San Joaquin Tributaries Authority (SJTA), which was created in or about April 2012 under a joint exercise of powers agreement between the District, Modesto Irrigation District, Turlock Irrigation District, South San Joaquin Irrigation District, Oakdale Irrigation District, and the City and County of San Francisco. The purpose of the SJTA is similar to that of the SJRGGA, including the defense of common interests of the parties, including the common defense of water rights and to develop proactive and responsive public relations approaches to issues over the long term. The SJTA is governed by a six-member commission made up of one member of the governing board of each party. The agreement has no scheduled termination date; it will terminate upon agreement of all parties unless the party decides to voluntarily withdraw earlier. Upon termination of the agreement, all of the assets of the SJTA will be returned to the respective parties in proportion to the contribution the party made. Equipment, furniture or furnishings will be returned to the contributing party, and any other property shall be converted to cash and distributed equally among the parties.

Basis of Presentation

The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position represents the amount available for future operations.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statement of net position. Net position is segregated into net investment in capital assets; restricted; and unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. When funds are received in advance of program expenditures, they are recorded as unearned revenues until earned. Earned but unbilled electric and water services are accrued as revenue. Electrical infrastructures that are constructed by private developers are contributed to the District, which then become the responsibility of the District to maintain. These infrastructures are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized and included as a part of the electric transmission and distribution system.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

The District maintains both restricted and unrestricted cash. Restricted cash is held in reserve and is spent exclusively for the intended purpose. In the event that the restricted cash is insufficient to complete the intended purpose, unrestricted cash is utilized.

During the period ended March 31, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows or Resources and Net Position*. Implementation of this statement has resulted in a change to the format of the basic financial statements. The adoption of this statement did not impact amounts reported in the financial statements. The District also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Implementation of this statement has resulted in a change to the format of the basic financial statements and a prior period adjustment. See Note 14 for further details.

Change in Accounting Period

The District changed its financial year end from December 31 to March 31 to better reflect the operating and construction cycles of the District. Accordingly, the financial statements presented reflect the 15 month period ended March 31, 2013.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Regulatory Deferrals

The Board has the authority to establish the level of rates charged for all District services. As a regulated entity, the District's financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71), which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits normally reflected in the statement of revenues, expenses and changes in net position as incurred are recognized when included in rates and recovered from, or refunded to, customers.

A portion of the District's annual power supply requirement is purchased from the Western Area Power Administration (WAPA). In 2006, due to increased hydroelectric production by WAPA, the District's allotment was significantly higher than anticipated. The comparatively low cost of this power offset higher priced power, causing a reduction of the District's expected overall power supply cost in 2006. This reduction in cost resulted in excess net income that is available to offset the projected power supply cost increase in future years. The power supply cost reduction was deferred in accordance with SFAS 71 for the benefit of future customer rate stabilization and is recorded as a deferred inflow of resources power cost reductions on the statement of net position. At March 31, 2013, the deferred power cost reductions were \$800,000 as reported in deferred inflows of resources.

A portion of the District water sales revenue is derived from water transfers to state and/or federal agencies for environmental purposes based upon the District's ability to make such water resources available to meet flow objectives in the Merced River, San Joaquin River, or the Delta. In 2007, the District was able to negotiate several transfer agreements which resulted in excess net income available to offset the projected low water sales and increasing costs in future years. A portion of the excess revenue, \$2,750,000, was deferred in accordance with SFAS 71 for the benefit of future customer rate stabilization and is recorded as unearned water transfer revenue on the Statement of Net Position. At March 31, 2013 the cumulative unearned water revenues were \$7,980,000 as reported in unearned revenue.

The amount reported as regulatory costs for future recovery represents the accretion of interest on capital appreciation certificates of participation until such time as these costs will be covered by hydroelectric sales in the future.

Capital Assets

Capital assets are recorded at historical cost. Contributed assets are valued at estimated fair value on the date received. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Description	Estimated Life
Landscaping	10 - 40 years
Building and structures	10 - 100 years
Transmission and distribution systems	15 - 50 years
Machinery	30 - 35 years
Vehicles	3 - 10 years
Equipment	3 - 40 years
Intangible assets	10 - 50 years

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Capital Assets, continued

Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with a cost of more than \$5,000. Costs of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement.

Deferred Relicense Costs

The District is deferring the costs of studies, legal counsel and various consultants associated with relicensing the 1964 Merced River Development Project with the Federal Energy Regulatory Commission (FERC) until the license is renewed. The District's existing FERC license expires on February 28, 2014. According to FERC's latest schedule for the relicensing process for P-2179 (the Merced River Hydroelectric Project), it is anticipated that a new license will be issued after February 2015, although this date is not fixed and is subject to FERC's discretion. However, in accordance with FERC regulations, the District will be issued annual licenses to operate under existing terms and conditions until a new license is issued. The project is expected to be relicensed in 2015, at which time these costs will be amortized to expense over the new license period.

Bond Discounts, Premiums, Prepaid Insurance Debt Issuance Costs

Bond discounts, premiums, as well as prepaid insurance debt issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts and premiums. Issuance costs are reported as noncurrent assets.

Deferred Outflows – Long-Term Debt Refundings

The District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under this standard, unamortized gains and losses resulting from current or advance debt refundings, previously reported as a deduction from long-term debt, have been reclassified as deferred outflows from resources. This amount is amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Accounts Receivable

Accounts receivable arise from billings to customers for water and electricity usage and include an estimate for unbilled revenues earned from the dates the customers were last billed to the end of the year. An estimate of the uncollectible amount is \$39,500 at March 31, 2013.

Due from Other Governmental Agencies

Due from other agencies represents reimbursements due from other agencies for services performed and for water and electricity delivered.

Inventory

Inventory is stated at average cost. Inventory consists of parts and supplies.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Deferred Outflows – Derivative Financial Instruments

The District uses swap agreements to hedge the impact of market volatility of electricity commodity prices for purchases of electricity for the District's retail load. The District records these derivative financial instruments at fair value on its statement of net position. Fair value is estimated by comparing contract prices to forward market prices quoted by third party market participants. The Board defers recognition of the unrealized gains or losses from such instruments for rate-making purposes and due to the hedging effectiveness of the derivatives; the balance is reflected as a deferred outflow of resources on the statement of net position and is charged or credited into electricity supply costs as the related asset or liability is utilized.

Compensated Absences

The District's policy allows employees to accumulate earned but unused vacation, which will be paid to employees upon separation from service to the District, subject to a vesting policy. All or a portion of unused sick leave is paid out upon retirement. The District accrues the liability for vacation and sick leave when the employee earns the right to the benefit.

Deferred Inflow - Public Purpose Revenues

The District is required by the Public Utilities Code to establish a usage-based charge of 2.85% on its electricity sales, which is collected as part of the electric billings. These revenues are to be used for energy efficiency and conservation programs, renewable energy resources, research and development and to provide assistance to low-income customers. These revenues are deferred until qualifying expenses are incurred. At March 31, 2013 the deferred public purpose revenues were \$1,234,926 as reported in deferred inflows of resources.

Purchased Power Expenses

The District's electricity needs are provided through electricity purchase agreements. Expenses from such agreements, along with associated interconnection costs, are recorded as the cost of electricity in the period the electricity is received. The net cash payments or receipts incurred under the swap agreements are reported as a component of cost of electricity supply in the statement of revenues, expenses and changes in net position in the period in which the underlying electricity supply delivery occurs.

Property Taxes

The District receives property taxes from Merced County. Property taxes receivable are recorded in the fiscal year for which the tax is levied based on the assessed value as of September 1 of the preceding fiscal year. They become a lien on the first day of the year they are levied. Secured property tax is levied on September 1 and due in two installments, on November 1 and March 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1 and become delinquent on August 31. The District elected to receive the property taxes from the County under the Teeter Bill Program. Under this Program, the District receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, along with all pooled deposits and investments in the Local Agency Investment Fund, which are available upon demand.

New Accounting Pronouncements

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 an amendment to GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. Since the District is a stand-alone proprietary fund, it does not believe there will be a financial statement effect related to this statement.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment to GASB Statement No.25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. The District is in the process of evaluating the impact of implementing this statement for financial reporting.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The District is in the process of evaluating the impact of implementing this statement for financial reporting.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

1. Reporting Entity and Summary of Significant Accounting Policies, continued

New Accounting Pronouncements, continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. The District does not believe there will be a significant financial effect related to this statement.

2. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments are classified in the accompanying financial statements as follows as of March 31, 2013:

Cash	\$ 17,269,458
Cash equivalents	2,153,823
Restricted cash equivalents	15,706,428
Investments	24,374,200
Total cash, cash equivalents and investments	\$ 59,503,909

Cash, cash equivalents and investments consisted of the following as of March 31, 2013:

Cash on hand	\$ 11,230
Deposits with financial institutions	17,258,228
Investments and cash equivalents	42,234,451
Total cash, cash equivalents and investments	\$ 59,503,909

Investment Policy

California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - *Financial Affairs*. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

2. Cash, Cash Equivalents and Investments, continued

Investment Policy, continued

During the 15 month period ended March 31, 2013, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agencies Securities	5 years	None	None
California Local Agency Debt	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial paper	180 days	15%	10%
Negotiable Certificates and Time Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Medium Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None
JPA Pools (Other investment pools)	N/A	None	None

The District complied with all other provisions of California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

2. Cash, Cash Equivalents and Investments, continued

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies certain provisions of these debt agreements that address interest risk, credit risk and concentration risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agencies Securities	5 years	None	None
California Local Agency Debt	5 years	None	None
Banker's Acceptances	1 year	None	None
Commercial Paper	None	None	None
Negotiable Certificates and Time Deposits	None	None	None
Repurchase Agreements	30 days	None	None
Investment Agreements	None	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Funds (LAIF)	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

2. Cash, Cash Equivalents and Investments, continued

Interest Rate Risk, continued

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee and cash equivalents) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

	Total	Remaining Maturity (in Months)			
		12 months or less	13 to 24 months	25 to 60 months	More than 60 months
U.S. Treasury Obligations	\$ 14,951,406	\$ 1,751,886	\$ 7,227,021	\$ 5,972,499	\$ -
U.S. Agency Securities	5,130,911	-	-	5,130,911	-
California Local Agency Debt	200,444	-	-	200,444	-
Medium Term Notes	4,091,439	-	-	4,091,439	-
Money Market Mutual Funds	79,576	79,576	-	-	-
Local Agency Investment Funds	2,074,247	2,074,247	-	-	-
Held by bond trustee:					
Money Market Mutual Funds	10,416,577	10,416,577	-	-	-
Local Agency Investment Funds	5,289,851	1,005,506	-	-	4,284,345
Total	<u>\$ 42,234,451</u>	<u>\$ 15,327,792</u>	<u>\$ 7,227,021</u>	<u>\$ 15,395,293</u>	<u>\$ 4,284,345</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of yearend for each investment and cash equivalent type.

	Minimum Legal Rating	Total	AAA/Aaa	A+/AA+	A-1	Unrated
U.S. Treasury Obligations	Unrated	\$ 14,951,406	\$ -	\$ -	\$ -	\$ 14,951,406
U.S. Agency Securities	Unrated	5,130,911	-	-	-	5,130,911
California Local Agency Debt	AA	200,444	-	-	200,444	-
Medium Term Notes	AA	4,091,439	-	4,091,439	-	-
Money Market Mutual Funds	AAA/Aaa	79,576	79,576	-	-	-
Local Agency Investment Funds	Unrated	2,074,247	-	-	-	2,074,247
Held by bond trustee:						
Money Market Mutual Funds	AAA/Aaa	10,416,577	10,416,577	-	-	-
Local Agency Investment Funds	Unrated	5,289,851	-	-	-	5,289,851
		<u>\$ 42,234,451</u>	<u>\$ 10,496,153</u>	<u>\$ 4,091,439</u>	<u>\$ 200,444</u>	<u>\$ 27,446,415</u>

Concentration of Credit Risk

The investment policy of the District limits the amount that can be invested in any one issuer to the lesser of the amount stipulated by the California Government Code or 50% of total investments, with the exception of U.S. Treasury Obligations, U.S. Agency Securities, Money Market Mutual Funds, and LAIF. As of March 31, 2013, the District had no individual investment that exceeded 5% of its total investments.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

2. Cash, Cash Equivalents and Investments, continued

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At March 31, 2013, the carrying amount of the District's deposits was \$17,258,228 and the balance in financial institutions was \$18,678,055. Of the balance in financial institutions, \$500,000 was covered by federal depository insurance and \$18,178,055 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

Investment in LAIF

As of March 31, 2013, the District's investment in LAIF is \$7,364,098. The total amount invested by all public agencies in LAIF at that date is approximately \$20.3 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$60.2 billion. As of March 31, 2013, LAIF has an average life-month end of 213 days. The Local Investment Advisory Board (Advisory Board) has oversight responsibility for LAIF. The Advisory Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the District's position in the pool.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

3. Capital Assets

Capital asset activity for the 15 month period ended March 31, 2013 is as follows:

	Balances at January 1, 2012	Additions	Disposals	Transfers and Adjustments	Balances at March 31, 2013
Capital assets, not being depreciated					
Land	\$ 13,144,380	\$ -	\$ -	\$ -	\$ 13,144,380
Construction in process	15,597,510	16,881,419	(70,159)	(8,010,700)	24,398,070
Goodwill	10,100	-	-	-	10,100
Total capital assets, not being depreciated	<u>28,751,990</u>	<u>16,881,419</u>	<u>(70,159)</u>	<u>(8,010,700)</u>	<u>37,552,550</u>
Capital assets, being depreciated					
Landscaping	6,555,912	-	-	-	6,555,912
Buildings and structures	51,393,572	-	-	443,122	51,836,694
Water distribution system	22,720,612	-	-	6,901,312	29,621,924
Electric transmission and distribution system	83,955,629	-	-	438,108	84,393,737
Machinery and equipment	10,567,364	768,806	-	4,438,233	15,774,403
Vehicles	8,256,718	182,110	(7,180)	(4,371,545)	4,060,103
Intangible plant	8,746,302	58,528	-	-	8,804,830
Total capital assets, being depreciated	<u>192,196,109</u>	<u>1,009,444</u>	<u>(7,180)</u>	<u>7,849,230</u>	<u>201,047,603</u>
Less accumulated depreciation for:					
Landscaping	(5,502,521)	(273,828)	-	-	(5,776,349)
Buildings and structures	(25,630,952)	(1,095,632)	-	-	(26,726,584)
Water distribution system	(6,463,430)	(747,790)	-	-	(7,211,220)
Electric transmission and distribution system	(21,920,807)	(3,015,823)	-	-	(24,936,630)
Machinery and equipment	(7,243,564)	(285,656)	-	(3,614,452)	(11,143,672)
Vehicles	(6,444,325)	(771,784)	-	3,775,922	(3,440,187)
Intangible plant	(7,232,145)	(276,822)	-	-	(7,508,967)
Total accumulated depreciation	<u>(80,437,744)</u>	<u>(6,467,335)</u>	<u>-</u>	<u>161,470</u>	<u>(86,743,609)</u>
Total capital assets being depreciated, net	<u>111,758,365</u>	<u>(5,457,891)</u>	<u>(7,180)</u>	<u>8,010,700</u>	<u>114,303,994</u>
Capital assets, net	<u>\$ 140,510,355</u>	<u>\$ 11,423,528</u>	<u>\$ (77,339)</u>	<u>\$ -</u>	<u>\$ 151,856,544</u>

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

4. Accrued Liabilities

Accrued liabilities include settlements, permission fees and power purchase expense. The balance of the District's accrued liabilities at March 31, 2013 is as follows:

Accrued NMDL settlement	\$	199,432
Accrued permission fees		178,228
Accrued power purchase expense		1,894,391
Other accrued liabilities		2,253,316
Total accrued liabilities	\$	<u><u>4,525,367</u></u>

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

5. Long-Term Liabilities

Long-term liabilities include long-term debt, capital leases and accrued compensated absences. The activity of the District's long-term liabilities during the 15 month period ended March 31, 2013 is as follows:

	Balances at January 1, 2012	Additions	Repayments	Balances at March 31, 2013	Due Within One Year
Long-term debt:					
Merced River					
Development Bonds	\$ 4,170,000	\$ -	\$ (2,225,000)	\$ 1,945,000	\$ 1,550,000
2003 Revenue Certificates of Participation	13,180,000	-	(260,000)	12,920,000	275,000
2005 Electric System Refunding Revenue Bonds	59,285,000	-	(1,235,000)	58,050,000	1,305,000
2005 Revenue Certificates of Participation	13,885,000	-	(10,505,000)	3,380,000	315,000
2008 Water and Hydro Refunding Revenue Certificates of Participation	4,610,000	-	(435,000)	4,175,000	460,000
2008 Water and Hydro Capital Appreciation Revenue Certificates of Participation	22,718,863			22,718,863	-
2012 Electric System Refunding Revenue Bonds	-	10,235,000	(5,000)	10,230,000	20,000
	<u>117,848,863</u>	<u>10,235,000</u>	<u>(14,665,000)</u>	<u>113,418,863</u>	<u>3,925,000</u>
Capital lease	220,610	-	(220,610)	-	-
Line of Credit	-	533,156	-	533,156	533,156
	<u>-</u>	<u>533,156</u>	<u>-</u>	<u>533,156</u>	<u>533,156</u>
 Total	 118,069,473	 10,768,156	 (14,885,610)	 113,952,019	 <u>\$ 4,458,156</u>
 Add:					
Bond discounts	(242,832)	-	27,300	(215,532)	
Bond premiums	1,341,218	-	(230,230)	1,110,988	
Accretion of capital appreciation certificates	5,740,813	2,371,095	-	8,111,908	
Less: current portion of long-term debt	-	(3,925,000)	3,832,680	(3,925,000)	
	<u>(3,832,680)</u>	<u>(3,925,000)</u>	<u>3,832,680</u>	<u>(3,925,000)</u>	
 Total long-term debt	 121,075,992	 (1,553,905)	 3,629,750	 119,034,383	
 Accrued compensated absences	 1,131,250	 1,484,130	 (1,469,782)	 1,145,598	
Hydro employee retirement obligation	-	641,054	-	641,054	
Net OPEB obligation	1,634,827	282,392	(264,936)	1,652,283	
	<u>1,634,827</u>	<u>282,392</u>	<u>(264,936)</u>	<u>1,652,283</u>	
 Total long-term liabilities	 <u>\$ 123,842,069</u>	 <u>\$ 853,671</u>	 <u>\$ 1,895,032</u>	 <u>\$ 122,473,318</u>	

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

5. Long-Term Liabilities, continued

Long-Term Debt

Long-term debt consists of the following at March 31, 2013:

Merced River Development Bonds

On July 1, 1964, the District issued the Merced River Development Revenue Bonds in the amount of \$36,000,000. Serial and term bonds in the amount of \$9,660,000 and \$26,340,000, respectively, were issued with various call features. Proceeds from these bonds were used to construct the New Exchequer Dam and McSwain Dam, expand the hydroelectric plant, increase irrigation water supply and increase flood control storage. The bonds are to be retired from the proceeds of the power contract with the Pacific Gas and Electric Company dated June 25, 1964 for the sale of power. Interest rates range from 3.625% to 3.75%. Semi-annual principal and interest payments ranging from \$402,406 to \$1,214,572 are due on January 1 and July 1, through July 1, 2014.

2003 Revenue Certificates of Participation (Electric System Project)

On March 1, 2003, the District issued 2003 Revenue Certificates of Participation in the amount of \$15,000,000. The proceeds were used to finance the cost of certain improvements to the electric system. The Certificates are secured by a lien on the District's electric system net revenues. Interest rates range from 1.50% to 5.70%. Principal payments ranging from \$95,000 to \$945,000 are due annually on September 1 through September 1, 2036. Interest payments ranging from \$26,933 to \$408,978 are due semi-annually on March 1 and September 1, through September 1, 2036. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

2005 Electric System Refunding Revenue Bonds

On November 10, 2005, the District issued 2005 Electric System Refunding Revenue Bonds in the amount of \$63,050,000. Proceeds from these bonds were used to advance refund the District's 2001 Electric System Refunding Revenue Bonds and the 2002 Revenue Certificate of Participation. The Bonds are secured by a lien on the District's electric system net revenues. Interest rates range from 3.25% to 5.75%. Principal payments ranging from \$300,000 to \$4,045,000 are due annually on September 1 through September 1, 2036. Interest payments ranging from \$106,181 to \$1,576,706, are due semi-annually on March 1 and September 1, through September 1, 2036. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

2005 Revenue Certificates of Participation (2005 Electric System Project)

On November 10, 2005, the District issued 2005 Revenue Certificates of Participation in the amount of \$15,000,000. The proceeds are to be used to finance the cost of certain improvements to the electric system of the District. The Bonds are secured by a lien on the District's electric system net revenues. Interest rates range from 3.25% to 5.25%. Principal payments ranging from \$260,000 to \$950,000 are due annually on September 1, through September 1, 2036. Interest payments ranging from \$24,938 to \$365,476 are due semi-annually on March 1 and September 1, through September 1, 2036. In July 2012, a payment of \$10,200,000 was made for a partial refunding of these bonds. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

5. **Long-Term Liabilities, continued**

Long-Term Debt, continued

2008 A Refunding Revenue Certificates of Participation (Water and Hydroelectric System Projects)

On June 24, 2008, the District issued 2008 Refunding Revenue Certificates of Participation in the amount of \$6,335,000. Proceeds were used to advance refund the District's 2001 Certificates of Participation (Water Utility Facilities Improvements). The Certificates are secured by a lien on the District's Water Operations and Hydroelectric net revenues. Interest rates range from 3.00% to 4.625%. Principal payments ranging from \$435,000 to \$600,000 are due annually on September 1, through September 1, 2020. Interest payments ranging from \$27,750 to \$292,133 are due semi-annually on March 1 and September 1, through September 1, 2020. The District is required to maintain a ratio of water operation net revenues to debt service of 120% until 2014 and a ratio of water operations and hydroelectric net revenue to debt service of 125% thereafter.

2008 B Capital Appreciation Revenue Certificates of Participation

On June 24, 2008, the District issued 2008 Capital Appreciation Revenue Certificates of Participation in the amount of \$22,718,863. Proceeds were used to advance refund the 2005 Warrants and to continue to finance the costs of relicensing the District's 1964 Merced River Development Project. The certificates are secured by a lien on the District's Water Operations and Hydroelectric net revenues. Interest rates range from 6.35% to 6.75%. Interest on these certificates is compounded semi-annually at March 1 and September 1, commencing September 1, 2008. The interest cost is accreted from date of issuance to maturity. The Certificates mature on September 1, 2023, 2033 and 2038; however, mandatory prepayments on these Certificates begin on September 1, 2015, September 1, 2024 and September 1, 2034 for each certificate maturity date, respectively. Principal payments ranging from \$387,550 to \$1,832,445 are due annually starting September 1, 2015 through September 1, 2038. Interest payments ranging from \$1,039,143 to \$2,487,450 are due annually starting September 1, 2015 through September 1, 2038. The District is required to maintain a ratio of water operations and hydroelectric net revenue to debt service of 125%.

2012 Electric System Refunding Revenue Bonds

On July 31, 2012, the District issued 2012 Electric System Refunding Revenue Bonds in the amount of \$10,235,000. Proceeds from these bonds were used to currently refund a portion of the District's 2005 Revenue Certificates of Participation (2005 Electric System Project). The Bonds are secured by a lien on the District's electric system net revenues. The interest rate is 4.4% per annum. Principal payments ranging from \$5,000 to \$450,000 are due semi-annually on March 1 and September 1, through September 1, 2036. Interest payments ranging from \$9,900 to \$263,949, are due semi-annually on March 1 and September 1, through September 1, 2036. The District is required to maintain a ratio of electric system net revenues to debt service of at least 125%.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

5. Long-Term Liabilities, continued

Long-Term Debt, continued

The following is a schedule of long-term debt:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,925,000	\$ 4,460,714	\$ 8,385,714
2015	2,865,000	4,287,704	7,152,704
2016	4,442,445	5,202,388	9,644,833
2017	4,432,150	5,201,468	9,633,618
2018	4,452,660	5,184,094	9,636,754
2019-2023	22,016,865	25,061,562	47,078,427
2024-2028	21,813,985	23,119,162	44,933,147
2029-2033	25,238,189	19,567,442	44,805,631
2034-2038	23,845,019	14,288,074	38,133,093
2039	387,550	2,487,450	2,875,000
	<u>\$ 113,418,863</u>	<u>\$ 108,860,058</u>	<u>\$ 222,278,921</u>

Pledged Revenues

The District has pledged future electric customer revenues, net of specified operating expenses, to repay \$15,000,000 of Revenue Certificates of Participation issued in March 2003, \$63,050,000 of Electric System Refunding Revenue Bonds issued in November 2005, \$15,000,000 of Revenue Certificates of Participation issued in November 2005 and \$10,235,000 of Electric System Refunding Revenue Bonds issued in July 2012. Proceeds from the bonds provided financing for improvements to the electric system. The bonds are payable solely from electric customer net revenues and are payable through September 2036. The total principal and interest remaining to be paid on the bonds is \$146,283,234. Principal and interest paid for the current period and total electric customer net revenues were \$7,811,864 and \$19,142,908, respectively.

The District has pledged future water operations and hydroelectric system revenues, net of specified operating expenses, to repay \$6,335,000 of Revenue Refunding Certificates of Participation issued in June 2008, and \$22,718,863 of Capital Appreciation Revenue Certificates of Participation issued in June 2008. Proceeds from the Certificates provided financing for improvements to the water system and relicensing of the hydroelectric facility. The Certificates are payable solely from water operations and hydroelectric net revenues and are payable through September 2038. The total principal and interest remaining to be paid on the Certificates is \$73,984,690. Principal and interest paid for the current period and total water customer net revenues were \$787,528 and \$1,399,235, respectively.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

5. Long-Term Liabilities, continued

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax exempt bonds after August 31, 1986. Arbitrage regulations deal with investments of all tax-exempt bond proceeds at an interest yield greater than the interest paid to the bondholders. Generally, all interest paid to bond holders can be retroactive if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. At March 31, 2013 the District had no arbitrage liability.

6. Energy Supply Purchases and Derivatives

Power Supply Agreements

The District relies on various power supply agreements to serve its customers' electricity requirements. The District has power supply agreements with the Turlock Irrigation District (TID), Western Area Power Administration (WAPA), and Iberdrola Renewables, Inc. (Iberdrola). Furthermore, TID provides wheeling, interconnection and ancillary services to the District under an interconnection agreement. The major agreements are described as follows:

Turlock Irrigation District

In 2011, the District amended and extended its current power supply agreement with TID through June 30, 2014. The amendment contained several changes effective February 1, 2011, including a calculation of the energy prices based on the Daily Intercontinental Exchange, Inc. NP-15 Firm Index (ICE NP15 Index) in dollars per megawatt-hour plus any congestion and loss charges. In addition, the energy prices adder was redefined to be the product of the ICE NP15 Index applicable to the delivery period, and six percent plus \$4.50 per megawatt-hour for the period from January 1, 2012 through December 31, 2012; \$4.75 per megawatt-hour for the period from January 1, 2013 through December 31, 2013; and \$5.00 per megawatt-hour for the period from January 1, 2014 through June 30, 2014.

This partial requirements power supply agreement provides power for all of the District's power requirements with the exception of the power supplied by WAPA. The price of this power supply is tied to the ICE NP 15 index times 106% plus \$4.50-\$4.75 per megawatt-hour, effective January 1, 2012. The District's purchases of power from TID for the period ended March 31, 2013 totaled \$21,042,552.

The District is also a party to a small hydroelectric project development agreement with TID, under which the District owns the project plant and equipment and TID operates and maintains the three small hydroelectric projects which are part of the overall agreement. The agreement provides for TID to receive all revenues from the sale of project power and the District to share in any profits earned by the project per the agreement formula. The agreement for each of the small hydroelectric projects expire beginning in 2031 through 2032.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

6. Energy Supply Purchases and Derivatives, continued

Western Area Power Administration

WAPA markets power from the Central Valley Project (CVP) and Washoe Project. The District began operating under the base resource contract on January 1, 2005. This contract provides for the District to receive 0.33201% of WAPA's base resource, which is power available for marketing after project power requirements. The current contract is scheduled to expire December 31, 2024. The District's composite price for power was approximately \$30.57 per megawatt hour during the period ended March 31, 2013. The District's purchases for the period ended March 31, 2013 totaled \$330,115.

Iberdrola Renewables, Inc.

The District entered into a 25-year power supply agreement with Iberdrola in 2003 for energy generated by a wind energy project. This is a non-firm power supply contract to purchase 5 megawatts of installed capacity, which is expected to generate 16,000 megawatt-hours of energy annually for the District at a fixed price of \$54.95 per megawatt-hour. Effective April 1, 2010 through the remaining life of the power supply agreement, under the new amendment, the District receives a credit on their invoice for the amount of energy delivered to the California Independent System Operator (CAISO) times the locational marginal price applicable to the CAISO pricing node for the wind project. The District's purchases during the period ended March 31, 2013 totaled \$706,604. The District's sales back to Iberdrola during the period ended March 31, 2013 totaled \$254,527.

Derivative Instruments

The District follows GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Subject to certain exceptions, GASB Statement No. 53 requires that every derivative instrument be recorded on the statement of net position as an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred.

It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity, natural gas and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity and natural gas are considered to be derivatives under GASB Statement No. 53, as they do not generally meet the "normal purchases and normal sales" criteria.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

6. Energy Supply Purchases and Derivatives, continued

Background Information

At March 31, 2013, the District has the following derivative financial instruments:

Type	Notional Amount	Changes in Fair Value		2013	
		Classification	Amount	Classification	Amount
Commodity forward contracts	276,840 MWh	Deferred inflow	\$ (9,175,636)	Derivative instruments	\$ 460,945

The District enters into derivative energy transactions to hedge its known or expected positions within its approved risk management policy. Decisions are made to enter into forward transactions to protect its financial position.

The District purchases fixed-for-floating swap agreements to hedge changes in cash flows and to manage market price risk under its TID agreement. Effective April 1, 2009, all ongoing electricity swap agreements settle against the newly-created North Path 15 Existing Zone Generation Trading Hub's day-ahead locational marginal price index. The North Path 15 index was selected to link the swap agreements to the cost of electricity under the TID agreement. The District's objective in executing swap agreements is to fix its costs for power supply and hedge market price exposure. The net amount of electricity swap settlements paid during the period ended March 31, 2013 was \$8,327,436.

The fair values of the electricity price swap agreements are based on forward prices from established indices for the applicable region and discounted using the District's estimated cost of funds of 5.5% at March 31, 2013.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

6. Energy Supply Purchases and Derivatives, continued

Risks

The following table displays the terms of the District's hedging derivative instruments outstanding at March 31, 2013, along with the credit rating of the associated counterparty or parent company guarantor, as applicable. All of these instruments presented in the table are commodity forward contracts with the objective to hedge changes in cash flows due to market price fluctuations related to expected purchases of electricity. In addition, all of the instruments settle at expiration using the North Path 15 as the index.

<u>Type</u>	<u>Notional Amount</u>		<u>Effective Date</u>	<u>Maturity Dates</u>	<u>Counterparty Credit Risk</u>
Commodity forward contract	43,800	MWh	03/05/09	01/01/2013 - 12/31/2013	A-
Commodity forward contract	43,800	MWh	10/30/09	01/01/2013 - 12/31/2013	A-
Commodity forward contract	36,960	MWh	03/22/12	07/01/2013 - 09/30/2013	A
Commodity forward contract	36,960	MWh	06/27/12	10/01/2013 - 12/31/2013	A-
Commodity forward contract	12,320	MWh	06/27/12	07/01/2013 - 09/30/2013	A-
Commodity forward contract	24,640	MWh	09/27/12	04/01/2013 - 06/30/2013	A-
Commodity forward contract	1,520	MWh	02/27/13	04/01/2013 - 04/30/2013	A-
Commodity forward contract	30,800	MWh	02/27/13	04/01/2013 - 06/30/2013	A-
Commodity forward contract	4,920	MWh	02/27/13	05/01/2013 - 05/31/2013	A-
Commodity forward contract	8,000	MWh	02/27/13	06/01/2013 - 06/30/2013	A-
Commodity forward contract	14,640	MWh	03/26/13	07/01/2013 - 09/30/2013	A-
Commodity forward contract	18,480	MWh	03/28/13	07/01/2013 - 09/30/2013	A-

Credit Risk – The District is exposed to credit risk related to non-performance by its wholesale counterparties under the terms of these swap agreements. The District evaluates the creditworthiness of its counterparties at the time of inception of the International Swap Dealers Association, Inc. (ISDA) agreement and at the time each swap transaction is executed, but the District does not currently have a formal evaluation policy. The District does contract with several counterparties to mitigate the risk of non-performance by any one counterparty.

Other Risks – There were no derivatives transactions outstanding that carry basis risk as of March 31, 2013. As of March 31, 2013, no termination events have occurred, and there were no outstanding transactions with material termination risk. There was no rollover, interest rate, foreign currency or market access risk for these derivative products at March 31, 2013.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

7. Net Position

Restricted

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets include the following at March 31, 2013:

Recreation plan operations and maintenance	\$	1,100,490
Mariposa County water rights settlement		437,107
Recreation plan future stage construction		6,503
		6,503
Total	\$	1,544,100

The restrictions are for the following:

- Restricted for recreation plan operations and maintenance represents unspent State of California grant proceeds restricted for the District's recreation plan operations and maintenance.
- Restricted for Mariposa County water rights settlement represents unspent State of California grant proceeds restricted for the remaining unpaid Mariposa County water rights commitment.
- Restricted for recreation plan future stage construction represents unspent State of California grant proceeds restricted for the third stage of onshore recreation facilities improvements, including fishing access sites, at Lake McClure and Lake McSwain in accordance with the District's recreation plan.

Unrestricted

The Board of Directors has taken action to use current unrestricted resources to satisfy future spending plans. There is no external restriction on these amounts and the future use of these funds may be modified, amended or removed by Board action. Amounts set aside for future spending plans included the following at March 31, 2013:

Water resources - capital fund	\$	3,000,000
Water resources - unanticipated infrastructure		5,522,492
Water resources - operating reserve		6,154,296
Water resources - catastrophe fund		790,000
Subtotal - water resources		15,466,788
Energy resources - new customer growth		1,092,500
Energy resources - system support and growth		15,293,951
Energy resources - purchased power reserve		5,464,517
Energy resources - operating reserve		2,157,304
Energy resources - catastrophe fund		641,080
Subtotal - energy resources		24,649,352
Total	\$	40,116,140

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

7. Net Position, continued

The unrestricted net position set aside for future spending plans are for the following:

- Designated for water resources - capital fund: the Capital Fund is used for the funding of new capital assets or the replacement of capitalized assets when they reach the end of their useful lives.
- Designated for water resources - unanticipated infrastructure: this fund is established to provide funds to pay for unanticipated capital expenditures related to existing Water Resources facilities and infrastructure.
- Designated for water resources – operating reserve: the Operating Reserve Fund is used for unanticipated operating expenses and to ensure prudent levels of general liquidity. This fund is designated by the Board to maintain a reserve for current operations and to meet routine cash flow needs.
- Designated for water resources – catastrophe fund: the Catastrophe Fund is used to begin repairs of capital facilities after a catastrophic event, such as a severe earthquake or fire, while long-term financing is being arranged or insurance claims are being processed. Merced may use funds herein for either capital or operating purposes.
- Designated for energy resources – new customer growth: this Fund is designed to set aside funding for future capital projects that will enable Merced to strategically add customers in a competitive environment.
- Designated for energy resources – system support and growth: this Fund is used for the funding of new capital assets or the replacement of capitalized assets when they reach the end of their useful lives.
- Designated for energy resources – purchase power reserve: this sub-fund is established to provide flexibility to the Board when setting rates to allow for absorbing temporary rate fluctuations in energy expenses in connection with NP-15 driven costs.
- Designated for energy resource – operating reserve: the Operating Reserve Fund is used for unanticipated operating expenses. This fund is designated by the Board to maintain a reserve for current operations and to meet routine cash flow needs.
- Designated for energy resources – catastrophe fund: the Catastrophe Fund can be used (i) to begin repair of the electric system after a catastrophic event, such as a severe earthquake or fire, while long-term financing is being arranged or insurance claims are being processed or (ii) for any operating or capital purpose in the event of severe financial events that impact the financial soundness of Merced. Merced may use funds herein for either capital or operating purposes.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

8. Employees' Retirement Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. All permanent full and part-time District employees working at least 1,000 hours per year are eligible to participate in CalPERS. Under CalPERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor, based on years of service, multiplied by their highest average monthly salary over thirty-six consecutive months of employment. Copies of the CalPERS annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7% of their annual covered salary, which the District contributes a portion or all on behalf of District employees and for their account. As of January 1, 2013, new employees are required to pay their own required contribution. Contributions made by the District on behalf of the employees were \$906,220 for the period ended March 31, 2013. The District is required to contribute at an actuarially determined rate; the rate for January 1 to June 30, 2012 was 11.857% and for July 1, 2012 to March 31, 2013 was 12.411%. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

Annual Pension Cost

For the period ended March 31, 2013, the District incurred an annual pension cost of \$1,498,977. The required contribution was determined as part of the June 30, 2009 and 2010 actuarial valuations using entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary in duration of service ranging from 3.55% to 14.45% for miscellaneous members, and (c) 3.25% payroll growth adjustment. Both (a) and (b) include an inflation component of 3%. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period (smoothed market value). The plan's unfunded liability is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2010 was 25 years.

Three-Year Trend Information for the District

	Annual Pension Cost (APC)	Percentage of APC Contributed
December 31, 2010	\$ 1,144,759	100%
December 31, 2011	1,159,626	100%
December 31, 2012	1,498,977	100%

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

8. Employees' Retirement Plan, continued

Funded Status and Funding Progress

The actuarial value and funding progress as of March 31, 2013, is set forth below at the most recent actuarial valuation date:

Actuarial Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Assets Value	(Excess Assets) Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a % of Covered Payroll
6/30/2009	\$ 50,519,117	\$ 40,762,944	\$ 9,756,173	80.68%	\$ 10,805,144	90.29%
6/30/2010	53,752,166	43,296,042	10,456,124	80.50%	10,672,324	97.97%
6/30/2011	56,533,121	45,674,192	10,858,929	80.80%	10,284,848	105.58%

Multiyear trend actuarial information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented in the Required Supplementary Information immediately following the notes to the basic financial statements.

9. Postemployment Health Care Benefits

Plan Description

The District administers a single employer defined benefit other postemployment healthcare (OPEB) plan providing health plan coverage to eligible retired employees and their eligible dependents. The District maintains the same medical plans for its retirees as for its active employees. Benefits are paid until the retiree, spouse or surviving spouse, becomes eligible for Medicare. Employees become eligible to retire and receive healthcare benefits upon reaching the age of 60 with 5 years of service to the District. The OPEB Plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2012, the District contributed \$264,936 to the plan, which represents 94% of the cost for the year ended December 31, 2012 premiums for eligible retired plan members and their spouses. In addition to contributions made for the year ended December 31, 2012, the District also made contributions for the additional 3 month period ended March 31, 2013. Contributions made from January 1, 2013 through March 31, 2013 totaled \$135,752. During the period ended March 31, 2013, plan members receiving benefits contributed \$24,401 or approximately 9% of the total premiums, through their required contribution of \$90 for spouse coverage and \$120 for family coverage.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

9. Postemployment Health Care Benefits, continued

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year ended December 31, 2012, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the OPEB plan:

Annual required contribution	\$	359,121
Interest on net OPEB obligation		81,741
Annual required contribution adjustment		(158,470)
Annual OPEB cost		282,392
Contributions made (premium payment made)		(264,936)
Change in net OPEB obligation		17,456
Net OPEB obligation, beginning of period		1,634,827
Net OPEB obligation, end of period	\$	1,652,283

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2011 and 2012 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 143,720	151.71%	\$ 1,587,695
December 31, 2011	335,224	85.94%	1,634,827
December 31, 2012	282,392	93.82%	1,652,283

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$2,971,500.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

9. Postemployment Health Care Benefits, continued

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses), which is based on the employer's own investments. The annual healthcare-cost trend rates are as follows: for medical premiums, 10% initially, reduced by 1% decrements to an ultimate rate of 5% after four years; for dental premiums, 7% every other year, with the first assumed July 1, 2010; for vision insurance premiums, 5% every third year, with the next increase in January 2009. Life insurance premiums are not assumed to change from current levels. The assumptions also include a 3% inflationary factor. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2011 was 30 years.

10. Insurance

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials liability, property damage, fidelity, dam failure and workers' compensation insurance. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group-purchased commercial excess insurance is obtained.

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The District's deductibles and maximum coverages are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (Includes public officials liability)	\$ 1,000,000	\$ 59,000,000	None
Property Damage	50,000	100,000,000	\$ 5,000 to 25,000
Fidelity	100,000	-	1,000
Workers' Compensation liability	2,000,000	Statutory	None
Dam failure liability	-	5,000,000	50,000

The District continues to carry commercial insurance for all other risks of loss to which the District is exposed. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Effective January 1, 1996, the District changed to ACWA/JPIA for workers' compensation liability coverage. Prior to January 1, 1996, the District was self-insured for workers' compensation. The District has recorded an accrual of \$13,964 at March 31, 2013 related to claims that were incurred during the self-insured period.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

11. Commitments and Contingencies

Mariposa County Water Rights Settlement

On March 1, 1960, the District entered into an agreement with Mariposa County regarding stream flow from the Merced River. In 1968, the District agreed to pay \$5,000,000 over 50 years in annual installments of not less than \$100,000, which are due annually on March 1. The agreement is secured by a lien on interest earned on certain accounts held in trust.

Litigation

The District is party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the District's legal counsel believe that there are no material loss contingencies that would have a materially adverse impact on the financial position of the District.

Federal and State Regulatory Issues

The District has a conditional license with the Federal Energy Regulatory Commission to operate its 1964 Merced River Development Project through February 2014. The District is working to renew this license.

Contract Commitments

At March 31, 2013, the District had contract commitments of \$322,888 for construction, design, engineering, planning and administrative costs. The District has unexpended approved allocations from existing sources, as well as committed revenues in its funding plan to cover the costs of these contract commitments.

12. Line of Credit

The District had a \$7,000,000 line of credit that will expire on August 1, 2013. At March 31, 2013, \$533,156 was outstanding on this line of credit.

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

13. Disclosure of Segment Information

The District has issued separate revenue bonds to finance its electric and water operations. These operations are accounted for within the District, but investors in those bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each segment is presented below. Electric Services operates the retail electric system. The Water Operations operates the District's irrigation water supply system.

	Electric Services	Water Operations
Condensed Statements of Net Position		
Assets:		
Capital assets	\$ 67,671,774	\$ 42,668,621
Other assets	1,913,133	-
Interfund receivables	26,062,504	28,218,479
Current assets	14,665,425	7,337,125
Total assets	110,312,836	78,224,225
Deferred outflow of resources	2,241,128	-
Liabilities:		
Long-term and other liabilities	84,589,036	7,622,547
Interfund payables	-	-
Other current liabilities	4,436,252	8,179,497
Total liabilities	89,025,288	15,802,044
Deferred inflow of resources	1,573,981	-
Net position:		
Net investment (deficit) in capital assets	(8,374,513)	39,254,873
Restricted	-	437,107
Unrestricted	30,329,208	22,843,633
Total net position	\$ 21,954,695	\$ 62,535,613

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

13. Disclosure of Segment Information, continued

Condensed Statements of Revenues, Expenses and Changes in Net Position	Electric Services	Water Operations
Operating revenues (pledged against bonds)	\$ 60,790,788	\$ 16,014,060
Depreciation and amortization expense	(3,650,003)	(1,869,774)
Other operating expenses	(41,958,662)	(17,037,572)
Operating income	15,182,123	(2,893,286)
Non-operating revenues (expenses):		
Property taxes	-	1,813,796
Other non-operating revenues	281,687	455,399
Interest expense	(5,701,531)	(278,853)
Non-operating revenues (expenses), net	(5,419,844)	1,990,342
Income before transfers and capital contributions	9,762,279	(902,944)
Capital contributions	65,712	3,854,446
Transfers in	66,975	157,869
Transfers out	(37,880)	(4,317)
Changes in net position	9,857,086	3,105,054
Beginning net position, as restated	12,097,609	59,430,559
Ending net position	\$ 21,954,695	\$ 62,535,613

MERCED IRRIGATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2013

13. Disclosure of Segment Information, continued

Condensed Statements of Cash Flows	<u>Electric Services</u>	<u>Water Operations</u>
Net cash provided by (used in):		
Operating activities	\$ 9,698,769	\$ (1,840,387)
Noncapital financing activities	187,781	3,089,983
Capital and related financing activities	(11,280,850)	(5,871,959)
Investing activities	<u>59,694</u>	<u>51,099</u>
Net increase (decrease)	(1,334,606)	(4,571,264)
Cash and cash equivalents, beginning of period	<u>8,077,273</u>	<u>8,728,536</u>
Cash and cash equivalents, end of period	<u><u>\$ 6,742,667</u></u>	<u><u>\$ 4,157,272</u></u>

Cash is used within the District by different funds for various operations and this use of another fund's cash is recorded on the statement of net position as due to other funds and due from other funds. As of March 31, 2013 the amounts of unrestricted cash balances available to the District's segments, in addition to those amounts specifically reported as cash on the fund statements of net position, can be calculated from the condensed statements of net position above by subtracting the interfund payable amount from the interfund receivable amounts.

14. Prior Period Adjustment

On January 1, 2012 the District early adopted GASB 65, *Items Previously Reported as Assets and Liabilities*. Under GASB 65, certain debt issuance costs previously reported as assets are to be expensed in the period incurred. The District had debt issuance costs related to prior period debt issuances that were written off during the 15 month period ended March 31, 2013. The effect of the write-off is as follows:

Net assets at January 1, 2012	\$ 99,284,402
Write-off of prior period debt issuance costs	<u>(1,511,004)</u>
Net assets as January 1, 2012, restated	<u><u>\$ 97,773,398</u></u>

15. Subsequent Events

On June 6, 2013, the District issued the 2013 Electric System Refunding Revenue Bonds in the amount of \$11,988,960 to defease the 2003 Revenue Certificates of Participation.

The District evaluated subsequent events for recognition and disclosure through June 25, 2013, the date which these financial statements were available to be issued. Management concluded that, other than the event noted above, no material subsequent events have occurred since March 31, 2013 that required recognition or disclosure in such financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

MERCED IRRIGATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

For the 15 month period ended March 15, 2013

Schedule of Funding Progress for the Postemployment Health Care Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Simplified Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
January 1, 2008	\$ -	\$ 1,873,768	\$ 1,873,768	0%	N/A	N/A
January 1, 2011	-	2,971,500	2,971,500	0%	N/A	N/A

Schedule of Funding Progress for the Employees Retirement Plan

Actuarial Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Assets Value	(Excess Assets) Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a % of Covered Payroll
6/30/2009	\$ 50,519,117	\$ 40,762,944	\$ 9,756,173	80.68%	\$ 10,805,144	90.29%
6/30/2010	53,752,166	43,296,042	10,456,124	80.50%	10,672,324	97.97%
6/30/2011	56,533,121	45,674,192	10,858,929	80.80%	10,284,848	105.58%

SUPPLEMENTARY INFORMATION

MERCED IRRIGATION DISTRICT
COMBINING STATEMENT OF NET POSITION

March 31, 2013

<u>Assets</u>	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
Capital assets:					
Non-depreciable	\$ 6,918,603	\$ 10,079,957	\$ 17,923,496	\$ 2,119,890	\$ -
Depreciable	60,753,171	32,588,664	17,577,039	1,776,491	944,113
Capital assets, net	<u>67,671,774</u>	<u>42,668,621</u>	<u>35,500,535</u>	<u>3,896,381</u>	<u>944,113</u>
Other non-current assets:					
Investments	-	-	-	-	-
Deferred relicense costs	-	-	-	-	-
Debt issuance costs	1,913,133	-	-	-	-
Regulatory costs for future recovery	-	-	-	-	-
Total other non-current assets	<u>1,913,133</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current assets:					
Cash and cash equivalents	-	3,091,491	-	1,430	-
Investments	-	-	-	-	-
Accounts receivable, net	3,947,878	797,192	1,671,414	18,745	-
Due from other governmental agencies	-	1,743,033	23,884	7,193	-
Accrued interest and taxes receivable	4,297	1,650	18	9	-
Inventory	3,862,058	291,752	-	-	-
Prepaid expenses and other current assets	108,525	346,226	148,100	45,660	77
Due from other funds	26,062,504	28,218,479	-	-	827,015
Restricted cash and cash equivalents	6,742,667	1,065,781	389,488	1,106,993	-
Total current assets	<u>40,727,929</u>	<u>35,555,604</u>	<u>2,232,904</u>	<u>1,180,030</u>	<u>827,092</u>
Total assets	<u>110,312,836</u>	<u>78,224,225</u>	<u>37,733,439</u>	<u>5,076,411</u>	<u>1,771,205</u>
<u>Deferred Outflows of Resources</u>					
Deferred amount on debt refundings	2,702,073	113,432	-	-	-
Accumulated decrease in fair value of hedging derivatives	(460,945)	-	-	-	-
Total deferred outflows of resources	<u>2,241,128</u>	<u>113,432</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 112,553,964</u>	<u>\$ 78,337,657</u>	<u>\$ 37,733,439</u>	<u>\$ 5,076,411</u>	<u>\$ 1,771,205</u>

As of January 1, 2012, the San Joaquin River Agreement, Water Transfers and the Water Utility Facility Improvement Funds were combined into the Water Utility Fund.

Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ -	\$ 314,130	\$ 196,474	\$ -	\$ 37,552,550
-	384,175	280,341	-	114,303,994
-	698,305	476,815	-	151,856,544
-	22,622,314	-	-	22,622,314
20,422,658	-	-	-	20,422,658
-	-	-	-	1,913,133
8,111,908	-	-	-	8,111,908
28,534,566	22,622,314	-	-	53,070,013
-	16,306,427	23,933	-	19,423,281
-	1,751,886	-	-	1,751,886
-	13,294	45,534	-	6,494,057
-	-	-	-	1,774,110
41	101,174	-	-	107,189
-	-	179,374	-	4,333,184
-	147,023	-	-	795,611
-	1,533,822	4,472,681	(61,114,501)	-
6,401,499	-	-	-	15,706,428
6,401,540	19,853,626	4,721,522	(61,114,501)	50,385,746
34,936,106	43,174,245	5,198,337	(61,114,501)	255,312,303
16,869	-	-	-	2,832,374
-	-	-	-	(460,945)
16,869	-	-	-	2,371,429
<u>\$ 34,952,975</u>	<u>\$ 43,174,245</u>	<u>\$ 5,198,337</u>	<u>\$ (61,114,501)</u>	<u>\$ 257,683,732</u>

MERCED IRRIGATION DISTRICT
COMBINING STATEMENT OF NET POSITION (CONTINUED)

March 31, 2013

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
<u>Liabilities</u>					
Long-term liabilities	\$ 84,147,997	\$ 4,814,827	\$ 1,921,287	\$ 405,192	\$ 4,096
Other liabilities:					
Unearned revenue	-	2,750,000	-	-	-
Deposits	441,039	57,720	-	123,115	-
Total other liabilities	<u>441,039</u>	<u>2,807,720</u>	<u>-</u>	<u>123,115</u>	<u>-</u>
Current liabilities:					
Accounts payable	174,790	764,653	65,527	26,687	-
Accrued liabilities	2,346,462	629,045	817,207	19,613	-
Unearned revenue	-	6,325,799	-	-	7,462
Accrued interest payable	-	-	18,234	-	-
Due to other funds	-	-	2,452,629	8,429,370	-
Current portion of long-term debt	1,915,000	460,000	1,550,000	-	-
Total current liabilities	<u>4,436,252</u>	<u>8,179,497</u>	<u>4,903,597</u>	<u>8,475,670</u>	<u>7,462</u>
 Total liabilities	 <u>89,025,288</u>	 <u>15,802,044</u>	 <u>6,824,884</u>	 <u>9,003,977</u>	 <u>11,558</u>
<u>Deferred Inflows of Resources</u>					
Public purpose revenues	1,234,926	-	-	-	-
Power cost reductions	800,000	-	-	-	-
Accumulated increase in fair value of hedging derivatives	(460,945)	-	-	-	-
Total deferred inflows of resources	<u>1,573,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Position</u>					
Net investment (deficit) in capital assets	(8,374,513)	39,254,873	33,945,022	3,896,382	944,114
Restricted	-	437,107	-	1,106,993	-
Unrestricted (deficit)	30,329,208	22,843,633	(3,036,467)	(8,930,941)	815,533
 Total net position (deficit)	 <u>21,954,695</u>	 <u>62,535,613</u>	 <u>30,908,555</u>	 <u>(3,927,566)</u>	 <u>1,759,647</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 112,553,964</u>	 <u>\$ 78,337,657</u>	 <u>\$ 37,733,439</u>	 <u>\$ 5,076,411</u>	 <u>\$ 1,771,205</u>

As of January 1, 2012, the San Joaquin River Agreement, Water Transfers and the Water Utility Facility Improvement Funds were combined into the Water Utility Fund.

Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ 30,830,770	\$ 329,903	\$ 19,246	\$ -	\$ 122,473,318
-	-	-	-	2,750,000
-	5,087	39,630	-	666,591
-	5,087	39,630	-	3,416,591
125,586	100,953	42,238	-	1,300,434
53,719	629,238	30,083	-	4,525,367
-	-	-	-	6,333,261
-	-	-	-	18,234
2,074,609	42,151,389	6,006,504	(61,114,501)	-
-	-	-	-	3,925,000
2,253,914	42,881,580	6,078,825	(61,114,501)	16,102,296
33,084,684	43,216,570	6,137,701	(61,114,501)	141,992,205
-	-	-	-	1,234,926
-	-	-	-	800,000
-	-	-	-	(460,945)
-	-	-	-	1,573,981
-	698,305	-	-	70,364,183
-	-	-	-	1,544,100
1,868,291	(740,630)	(939,364)	-	42,209,263
1,868,291	(42,325)	(939,364)	-	114,117,546
\$ 34,952,975	\$ 43,174,245	\$ 5,198,337	\$ (61,114,501)	\$ 257,683,732

MERCED IRRIGATION DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the 15 month period ended March 31, 2013

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
Operating revenues:					
Electric sales and services	\$ 60,790,788	\$ -	\$ -	\$ -	\$ -
Water sales and services	-	10,312,735	-	-	-
Hydroelectric contractual services	-	-	9,864,859	-	-
Water transfers	-	5,701,325	-	-	-
Recreation fees	-	-	-	1,830,125	-
Administrative services	-	-	-	-	-
Storm drainage fees	-	-	-	-	12,812
Concessionaire revenue	-	-	-	-	-
Total operating revenues	<u>60,790,788</u>	<u>16,014,060</u>	<u>9,864,859</u>	<u>1,830,125</u>	<u>12,812</u>
Operating expenses:					
Purchase of power	29,989,929	-	-	-	-
Water distribution	-	13,961,533	-	-	-
Electric transmission and distribution	10,010,831	-	7,527,146	-	-
Recreation	-	-	-	2,896,704	-
Concessionaire	-	-	-	-	-
Storm drainage	-	-	-	-	14,552
Administrative and general	1,957,902	3,076,039	599,971	-	216,688
Depreciation and amortization	3,650,003	1,869,774	905,855	369,252	61,491
Total operating expenses	<u>45,608,665</u>	<u>18,907,346</u>	<u>9,032,972</u>	<u>3,265,956</u>	<u>292,731</u>
Net income (loss) from operations	<u>15,182,123</u>	<u>(2,893,286)</u>	<u>831,887</u>	<u>(1,435,831)</u>	<u>(279,919)</u>
Non-operating revenue (expenses):					
Property taxes	-	1,813,796	-	-	245,399
Interest income	58,906	46,565	142	137	1,330
Other non-operating income	222,781	408,834	94,133	6,876	-
Gain on disposal of capital assets	-	-	-	3,000	-
Interest expense	(5,701,531)	(278,853)	(133,359)	-	-
Transfers in	66,975	157,869	-	-	-
Transfers out	(37,880)	(4,317)	(66,483)	(71,288)	(44,876)
Total non-operating revenue (expenses)	<u>(5,390,749)</u>	<u>2,143,894</u>	<u>(105,567)</u>	<u>(61,275)</u>	<u>201,853</u>
Net income (loss) before capital contributions	9,791,374	(749,392)	726,320	(1,497,106)	(78,066)
Capital contributions	65,712	3,854,446	5,212,788	-	-
Change in net position	9,857,086	3,105,054	5,939,108	(1,497,106)	(78,066)
Net position (deficit), beginning of period, as restated	12,097,609	59,430,559	24,969,447	(2,430,460)	1,837,713
Net position (deficit), end of period	<u>\$ 21,954,695</u>	<u>\$ 62,535,613</u>	<u>\$ 30,908,555</u>	<u>\$ (3,927,566)</u>	<u>\$ 1,759,647</u>

As of January 1, 2012, the San Joaquin River Agreement, Water Transfers and the Water Utility Facility Improvement Funds were combined into the Water Utility Fund.

Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ -	\$ -	\$ -	\$ -	\$ 60,790,788
-	-	-	-	10,312,735
-	-	-	-	9,864,859
-	-	-	-	5,701,325
-	-	-	-	1,830,125
-	5,528,154	-	(5,528,154)	-
-	-	-	-	12,812
-	-	1,588,511	-	1,588,511
-	5,528,154	1,588,511	(5,528,154)	90,101,155
-	-	-	-	29,989,929
-	-	-	-	13,961,533
-	-	-	-	17,537,977
-	-	-	-	2,896,704
-	-	378,088	-	378,088
-	-	-	-	14,552
-	5,478,196	2,081,689	(5,528,154)	7,882,331
-	157,788	68,130	-	7,082,293
-	5,635,984	2,527,907	(5,528,154)	79,743,407
-	(107,830)	(939,396)	-	10,357,748
-	-	-	-	2,059,195
974	99,232	-	-	207,286
698	8,601	11,855	-	753,778
-	-	-	-	3,000
(1,672)	-	(54,390)	-	(6,169,805)
-	-	-	(224,844)	-
-	-	-	224,844	-
-	107,833	(42,535)	-	(3,146,546)
-	3	(981,931)	-	7,211,202
-	-	-	-	9,132,946
-	3	(981,931)	-	16,344,148
1,868,291	(42,328)	42,567	-	97,773,398
\$ 1,868,291	\$ (42,325)	\$ (939,364)	\$ -	\$ 114,117,546

MERCED IRRIGATION DISTRICT
COMBINING STATEMENT OF CASH FLOWS

March 31, 2013

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
Cash flows from operating activities:					
Cash receipts from customers	\$ 60,263,957	\$ 21,624,280	\$ 8,180,823	\$ 1,889,674	\$ 30,761
Cash paid to suppliers for goods and services	(41,385,616)	(14,920,033)	(7,832,511)	(2,761,833)	(10,914)
Cash paid to employees for services	(1,877,897)	(3,114,380)	64,324	29,228	(216,688)
Cash receipts/(payments) to other funds	(7,301,675)	(5,430,254)	289,331	1,604,791	(177,680)
Net cash provided by (used for) operating activities	<u>9,698,769</u>	<u>(1,840,387)</u>	<u>701,967</u>	<u>761,860</u>	<u>(374,521)</u>
Cash flows from noncapital financing activities:					
Property taxes received	-	2,681,149	-	-	373,191
Relicense costs incurred	-	-	-	-	-
Other income, net of other expenses	187,781	408,834	94,133	6,876	-
Net cash provided by (used for) noncapital financing activities	<u>187,781</u>	<u>3,089,983</u>	<u>94,133</u>	<u>6,876</u>	<u>373,191</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(2,611,366)	(8,838,477)	300,617	(771,363)	-
Proceeds from the sale of equipment	-	-	-	3,000	-
Reimbursements received for capital assets	-	3,775,130	-	-	-
Proceeds from issuance of debt	10,235,000	-	-	-	-
Principal payments on long-term debt	(12,400,132)	(517,851)	(1,691,844)	-	-
Interest payments on long-term debt	(6,504,352)	(290,761)	(193,313)	-	-
Net cash (used for) capital and related financing activities	<u>(11,280,850)</u>	<u>(5,871,959)</u>	<u>(1,584,540)</u>	<u>(768,363)</u>	<u>-</u>
Cash flows from investing activities:					
Purchase of investment securities	-	-	-	-	-
Interest received on investments	59,694	51,099	127	137	1,330
Net cash provided by investing activities	<u>59,694</u>	<u>51,099</u>	<u>127</u>	<u>137</u>	<u>1,330</u>
Increase (decrease) in cash and cash equivalents	(1,334,606)	(4,571,264)	(788,313)	510	-
Cash and cash equivalents, beginning of period	<u>8,077,273</u>	<u>8,728,536</u>	<u>1,177,801</u>	<u>1,107,913</u>	<u>-</u>
Cash and cash equivalents, end of period	<u>\$ 6,742,667</u>	<u>\$ 4,157,272</u>	<u>\$ 389,488</u>	<u>\$ 1,108,423</u>	<u>\$ -</u>

As of January 1, 2012, the San Joaquin River Agreement, Water Transfers and the Water Utility Facility Improvement Funds were combined into the Water Utility Fund.

Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ -	\$ 5,999,512	\$ 1,729,843	\$ -	\$ 99,718,850
(345,075)	75,428	(329,249)	(396,297)	(67,906,100)
-	(5,470,327)	(2,062,443)	-	(12,648,183)
156,568	9,457,111	1,005,511	396,297	-
(188,507)	10,061,724	343,662	-	19,164,567
-	-	-	-	3,054,340
(2,880,215)	-	-	-	(2,880,215)
698	8,601	11,855	-	718,778
(2,879,517)	8,601	11,855	-	892,903
-	(338,564)	(374,880)	-	(12,634,033)
-	-	-	-	3,000
-	-	-	-	3,775,130
-	-	-	-	10,235,000
-	-	-	-	(14,609,827)
-	-	-	-	(6,988,426)
-	(338,564)	(374,880)	-	(20,219,156)
-	(24,338,370)	-	-	(24,338,370)
1,019	(37,772)	-	-	75,634
1,019	(24,376,142)	-	-	(24,262,736)
(3,067,005)	(14,644,381)	(19,363)	-	(24,424,422)
9,468,504	30,950,808	43,296	-	59,554,131
\$ 6,401,499	\$ 16,306,427	\$ 23,933	\$ -	\$ 35,129,709

MERCED IRRIGATION DISTRICT
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)

March 31, 2013

	Electric Services	Water Utility	Hydroelectric	Parks	Drainage Improvement District #1
Reconciliation of net income (loss) from operations to net cash provided by (used for) operating activities:					
Net income (loss) from operations	\$ 15,182,123	\$ (2,893,286)	\$ 831,887	\$ (1,435,831)	\$ (279,919)
Adjustments to reconcile net income (loss) from operations to net cash provided by (used for) operating activities:					
Depreciation and amortization	3,650,003	1,869,774	905,855	369,252	61,491
Transfers to/from other funds	29,095	153,552	(66,483)	(71,288)	(44,876)
Changes in operating assets and liabilities:					
Accounts receivable	291,265	(189,791)	(1,666,768)	65,984	3,470
Due from other governmental agencies	35,915	(64,536)	-	-	7,017
Inventory	11,551	(52,465)	-	-	-
Prepaid expenses and other current assets	(41,507)	(110,107)	4,234	8,186	3,694
Accounts payable	27,194	(409,620)	(201,832)	(18,079)	(56)
Accrued liabilities	(1,315,254)	68,219	(107,767)	21,649	-
Unearned revenue	-	5,864,547	(17,268)	(6,435)	7,462
Due to/from other funds	(7,330,770)	(5,583,806)	355,814	1,676,079	(132,804)
Deposits	(66,840)	(454,527)	-	123,115	-
Deferred inflow of resources	(854,011)	-	-	-	-
Accrued postemployment benefits	76,951	(45,818)	673,059	43,050	-
Accrued compensated absences	3,054	7,477	(8,764)	(13,822)	-
Net cash provided by (used for) operating activities	<u>\$ 9,698,769</u>	<u>\$ (1,840,387)</u>	<u>\$ 701,967</u>	<u>\$ 761,860</u>	<u>\$ (374,521)</u>
Noncash investing, capital and financing activities:					
Receipt of contributed electric system assets from developers	<u>\$ 65,712</u>	<u>\$ 79,316</u>	<u>\$ 5,212,788</u>	<u>\$ -</u>	<u>\$ -</u>
Change in derivative financial instruments	<u>\$ 9,175,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

As of January 1, 2012, the San Joaquin River Agreement, Water Transfers and the Water Utility Facility Improvement Funds were combined into the Water Utility Fund.

Federal Energy Regulatory Commission Fund	General Operations	Twin Lakes	Eliminating Entries	Total
\$ -	\$ (107,830)	\$ (939,396)	\$ -	\$ 10,357,748
-	157,788	68,130	-	7,082,293
-	-	-	-	-
-	470,694	141,332	-	(883,814)
-	664	-	-	(20,940)
-	-	(25,386)	-	(66,300)
-	(162,491)	16,592	-	(281,399)
(50,027)	12,487	8,736	-	(631,197)
(295,048)	226,723	9,267	-	(1,392,211)
-	-	-	-	5,848,306
156,568	9,457,111	1,005,511	-	(396,297)
-	(1,291)	39,630	-	(359,913)
-	-	-	-	(854,011)
-	(8,206)	-	-	739,036
-	16,075	19,246	-	23,266
<u>\$ (188,507)</u>	<u>\$ 10,061,724</u>	<u>\$ 343,662</u>	<u>\$ -</u>	<u>\$ 19,164,567</u>

<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,357,816</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,175,636</u>

MERCED IRRIGATION DISTRICT

**2011 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP AND BONDS -
ELECTRIC SERVICES**

March 31, 2013

	Actual 15 months ended March 31, 2013	Annualized 15 months ended March 31, 2013
Net income	\$ 9,857,086	\$ 7,885,669
Add back:		
Depreciation and amortization expense	3,650,003	2,920,003
Bond interest expense	5,701,531	4,561,225
Less:		
Capital contribution revenue	<u>65,712</u>	<u>52,570</u>
Reconciled net revenue	<u>\$ 19,142,908</u>	<u>\$ 15,314,327</u>
COP debt service related to outstanding COPs and Bonds	<u>\$ 7,811,864</u>	<u>\$ 6,249,491</u>
Debt service coverage	<u>245%</u>	<u>245%</u>
Required debt service coverage	<u>125%</u>	<u>125%</u>

MERCED IRRIGATION DISTRICT

**2011 DEBT SERVICE COVERAGE RELATED TO OUTSTANDING COP AND BONDS -
WATER SERVICES**

March 31, 2013

	Actual 15 months ended March 31, 2013	Annualized 15 months ended March 31, 2013
Net income	\$ 3,105,054	\$ 2,484,043
Add back:		
Depreciation and amortization expense	1,869,774	1,495,819
Bond interest expense	278,853	223,082
Less:		
Capital contribution revenue	<u>3,854,446</u>	<u>3,083,556</u>
Reconciled net revenue	<u>\$ 1,399,235</u>	<u>\$ 1,119,388</u>
COP debt service related to outstanding COPs	<u>\$ 787,528</u>	<u>\$ 630,062</u>
Debt service coverage	<u>178%</u>	<u>178%</u>
Required debt service coverage	<u>120%</u>	<u>120%</u>

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