

**KINNELOA IRRIGATION DISTRICT**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2005 AND 2004**

**AND INDEPENDENT AUDITORS' REPORT**

KINNELOA IRRIGATION DISTRICT  
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DECEMBER 31, 2005 AND 2004

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KINNELOA IRRIGATION DISTRICT  
BOARD OF DIRECTORS AND DISTRICT MANAGEMENT PERSONNEL  
DECEMBER 31, 2005 AND 2004

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Richard L. Barkhurst	Chairman	2009
Steven Sorell	Treasurer	2007
Jay Krieger	Director	2009
Robert Brain	Director	2007
Maurice Pickard	Secretary	2007

MANAGEMENT PERSONNEL

Melvin L. Matthews	General Manager
Shirley Burt	Administrative Assistant

KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005 AND 2004

Our discussion and analysis of the financial performance of Kinneloa Irrigation District (the "District") provides an overview of the District's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the District's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The District's operating revenues, consisting primarily of water sales decreased by 0.7% to \$853,228 as compared to 2004 operating revenues of \$858,944.
- Total operating expenses including depreciation increased by 13% to \$877,131 as compared to 2004 operating expenses of \$775,915. The increase is primarily due to expenditures for flood damage repair which are offset by flood damage repair grant revenues..

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

The District operates as a utility enterprise and its annual report consists of a series of financial statements presented on the full accrual basis of accounting. The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Assets (on pages 8 and 9) provide information about the District as a whole and present a longer-term view of the District's finances.

KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005 AND 2004

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2005 and 2004.

NET ASSETS

	<u>2005</u>	<u>2004</u>
Capital assets, net	\$3,500,535	\$3,609,001
Other assets, net	739,452	564,837
Total assets	<u>4,239,987</u>	<u>4,173,838</u>
Long-term liabilities	-	-
Other liabilities	124,112	53,828
Total liabilities	<u>124,112</u>	<u>53,828</u>
Invested in capital assets, net of debt	3,500,535	3,609,001
Restricted for debt service	-	-
Unrestricted	<u>615,340</u>	<u>511,009</u>
Total net assets	<u><u>\$4,115,875</u></u>	<u><u>\$4,120,010</u></u>

Capital and other assets – The change in capital assets is net of an increase in capital assets primarily due to capital improvement projects less current year's depreciation.

Net assets – Unrestricted net assets increased from the prior year due to the current year's excess of revenues over expenses. The increase primarily relates to the receipt of flood damage repair grant revenues. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". The District is required to apply the Government Accounting Standards Board (GASB) Statement No. 34. GASB 34 requires, among other things, that the difference between assets and liabilities be reported as net assets, not equity.

KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005 AND 2004

CHANGES IN NET ASSETS

	<u>2005</u>	<u>2004</u>
Total operating revenues	\$ 853,228	858,944
Total non-operating revenues	<u>21,017</u>	<u>4,737</u>
Total revenues	874,245	863,681
Total operating expenses	877,131	775,915
Total non-operating expenses	<u>1,249</u>	<u>7,449</u>
Total expenses	<u>878,380</u>	<u>783,364</u>
Change in net assets	(4,135)	80,317
Net assets, beginning of year	4,120,010	2,853,088
Contributed assets	<u>-</u>	<u>1,186,605</u>
Net assets, end of year	<u>\$ 4,115,875</u>	<u>2,933,405</u>

Revenues – Water usage increased 0.86% over 2004 to 762.5 acre-fee or 2.48 million gallons and total operating revenue decreased 0.07% over 2004 to \$853,228. For 2005, the primary source of the District's non-operating revenues is interest earned on its investments and Federal and state disaster assistance to reimburse repairs for damage caused by the winter storms. The amount of the District's temporary investments at year end was \$444,673 and \$381,258 in 2005 and 2004, respectively. The increase is attributed to an accumulation of reserves for future capital and planned maintenance projects. The District earned \$21,017 and \$4,737 in non-operating revenues, respectively.

Expenses – The District's operating and maintenance expenses increased by \$55,423. The increase is due primarily to the use of outside contractors to repair facilities damaged by winter storms. This expense was offset with Federal and State disaster assistance grant revenue. The District's expense for electrical power was reduced by \$31,037 as a result of the reduced need to pump water because of increased tunnel production caused by the heavy rains. The District's general and administrative expenses increased by \$4,712 which is a 2.1% increase over 2004 expenses.

BUDGET ANALYSIS AND VARIANCES

Revenues from water sales for 2005 were \$853,228 and were higher than the budgeted amount of \$838,000. The budgeted revenue was based on the actual amount from the previous year and adjusted for rate changes and/or expected new service connections for the year.

KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005 AND 2004

BUDGET ANALYSIS AND VARIANCES (continued)

The budgeted amount is also adjusted for expected wholesale water sales during the year.

Overall, the net revenue surplus for 2005 was \$286,989, not including depreciation, as compared to the budgeted amount of \$85,489 which is a favorable result as compared to budget. This allowed capital and planned maintenance projects in the amount of \$111,143 to be completed with a net increase in reserves of \$175,846 which is a favorable result as compared to the budgeted reserve increase of \$49,489.

Each year the District budgets amounts for capital projects and planned maintenance based on its expected operations and available reserves. In 2005, the majority of the expenditures were for two major projects: (1) Rebuilding of the K-3 Well pump and motor, and (2) Maintenance agreement on the District's five steel tanks. The first project was required after a failure of the K-3 Well pump after many years of service beyond its design life. The rebuilt pump and motor is expected to provide approximately ten years of service depending on usage. The second project is a continuing planned maintenance agreement with a tank maintenance company to do repairs on the tanks as needed to extend the lifetime of the tanks for many decades into the future.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2005 and 2004, the District had investments in land, buildings, wells and distribution systems, machinery and equipment, and construction in progress as follows).

	<u>2005</u>	<u>2004</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	4,539,617	4,490,883
Machinery and equipment	407,335	407,335
Construction in progress	-	-
	<hr/>	<hr/>
Totals	\$ <u>5,095,712</u>	<u>5,046,978</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Inflation as measured by the consumer price index for all urban consumers was 3.5% for the 12 months ended December 2005.
- The District expects to serve an additional 4 new or remodeled homes in 2006. The Board of Directors approved a \$0.25 per CCF rate increase effective with the February

KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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billing for water used in January 2006. The Board of Directors also approved a \$4.00 increase in the monthly service charge.

These factors when combined are anticipated to have a positive effect on the District's operations through increased water sales. However, possible increased power costs and need to purchase additional water or lease additional pumping rights if water sales increase would moderate the benefit to the District. Weather conditions will continue to play a significant role in determining water sales for 2006.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our purveyors, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the District's finance office at 1999 Kinclair Dr., Pasadena, CA 91107

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INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Kinneloa Irrigation District  
Pasadena, California

We have audited the accompanying balance sheets of Kinneloa Irrigation District (the "District") as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kinneloa Irrigation District as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information presented on page 21 for the years ended December 31, 2005 and 2004 is presented for purposes of additional analysis and is not required as part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Egan & Egan*

March 17, 2006

**KINNELOA IRRIGATION DISTRICT  
BALANCE SHEETS  
DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 92,503	66,373
Temporary investments	444,673	381,258
Temporary investments, restricted as to use	73,785	
Receivables		
Water sales, net of allowance for doubtful accounts	83,516	67,081
Other receivables	7,551	8,850
Prepaid expenses	17,424	21,275
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	739,452	564,837
<b>Capital assets, net of accumulated depreciation</b>	<u>3,500,535</u>	<u>3,609,001</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,239,987</u>	<u>4,173,838</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 6,089	16,807
Accrued payroll and payroll taxes	37,890	29,973
Customer deposits	6,348	7,048
Deferred income	<u>73,785</u>	<u>-</u>
Total current liabilities	124,112	53,828
<b>Net assets</b>		
Invested in capital assets, net of related debt	3,500,535	3,609,001
Restricted for debt service	-	-
Unrestricted	<u>615,340</u>	<u>511,009</u>
Total net assets	<u>4,115,875</u>	<u>4,120,010</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,239,987</u>	<u>4,173,838</u>

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

**KINNELOA IRRIGATION DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u><b>2005</b></u>	<u><b>2004</b></u>
Operating revenues		
Water sales and service fees	\$ <u>853,228</u>	<u>858,944</u>
Operating expenses		
Operating and maintenance	489,872	434,449
Administration and general	230,059	225,347
Depreciation	<u>157,200</u>	<u>116,119</u>
Total operating expenses	<u>877,131</u>	<u>775,915</u>
Operating (loss) income	<u>(23,903)</u>	<u>83,029</u>
Non-operating revenues (expenses)		
Interest	9,524	7,817
Bond assessments	-	(3,080)
Interest expense	-	(3,200)
Grant income	11,493	-
Bond administration expenses	<u>(1,249)</u>	<u>(4,249)</u>
Total non-operating revenue	<u>19,768</u>	<u>(2,712)</u>
Change in net assets	(4,135)	80,317
Net assets, beginning of year	4,120,010	2,853,088
Contributed assets	<u>-</u>	<u>1,186,605</u>
Net assets, end of year	<u>\$ 4,115,875</u>	<u>4,120,010</u>

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

**KINNELOA IRRIGATION DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

<b>Cash flows from operating activities:</b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Cash received from customers	\$ 838,092	855,341
Cash payments to employees for services	(282,198)	(252,790)
Cash payments for services and goods	<u>(437,383)</u>	<u>(391,874)</u>
Net cash provided by operating activities	<u>118,511</u>	<u>210,677</u>
 <b>Cash flows from capital and related financing</b>		
Cash paid for construction and acquisition of capital	(48,034)	(395,395)
Principal paid on debt	-	(40,000)
Payments on capital lease obligation	-	(1,778)
Customer deposits	(700)	(5,439)
Assessments received	-	214
Bond administrative expenses	(1,249)	(4,249)
Grant income	85,278	-
Interest and redemption expenses paid	<u>-</u>	<u>(3,200)</u>
Cash used by capital and related financing activities	<u>35,295</u>	<u>(449,847)</u>
 <b>Cash flows from investing activities:</b>		
Interest received	<u>9,524</u>	<u>7,817</u>
Cash provided by investing activities	<u>9,524</u>	<u>7,817</u>
Net decrease in cash and cash equivalents	163,330	(231,353)
Cash and temporary investments, beginning of the year	<u>447,631</u>	<u>678,984</u>
Cash and temporary investments, end of the year	<u>\$ 610,961</u>	<u>447,631</u>
 <b>SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS</b>		
Cash	\$ 92,503	66,373
Temporary investments	444,673	381,258
Temporary investments, restricted as to use	<u>73,785</u>	<u>-</u>
Total cash	<u>\$ 610,961</u>	<u>447,631</u>

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

**KINNELOA IRRIGATION DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

<b>Reconciliation of operating income to net cash operating activities:</b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Operating income (loss)	\$ (23,903)	83,029
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	157,200	116,119
(Increase) decrease in receivables	(15,136)	(3,603)
Decrease in prepaid expenses	3,851	(118)
Decrease in accounts payable and accrued expenses	<u>(3,501)</u>	<u>15,250</u>
Net cash provided by operating activities	<u>\$ 118,511</u>	<u>210,677</u>

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

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kinneloa Irrigation District (the "District") is a special district organized in 1953 under the provisions of Division 11 of the Water Code of the State of California. The District delivers water to the residents in a specific area of Los Angeles County, northeast of the City of Pasadena. This District is not a subdivision of a larger governmental organization.

The District is governed by an elected Board of Directors. At December 31, 2005, The Board of Directors were as follows:

<u>Name</u>	<u>Title</u>
Mr. Richard L. Barkhurst	Chairman
Mr. Steven Sorell	Treasurer
Mr. Robert Brain	Director
Mr. Jay Krieger	Director
Mr. Maurice Pickard	Secretary

The Improvement District No. 1 was formed to service the bonded debt. Properties within the Improvement District were assessed \$.80 per \$100 of property value on an annual basis through 2004.. The bonds related to this Improvement District were fully paid at December 31, 2004. As of December 31, 2005, there were assessments receivable of \$626 and the Improvement District #1 Fund balance was \$19,319. Remaining funds will be used for projects within the improvement District.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental enterprise funds. The District applies Governmental Accounting Standards Board ("GASB") pronouncements and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The more significant policies reflected in the financial statements are summarized as follows:

a. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, retained earnings, revenues and expenses. The District has one fund, which is presented in the accompanying financial statement as a Proprietary Fund category, Enterprise Fund type.

b. Basis of Accounting

The District uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred. Unbilled receivables are not reflected in the accompanying financial statements because the amounts are not material.

The District is required to apply the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" (GASB 34) for periods beginning after June 15, 2003. GASB 34 requires,

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

among other things, that the difference between assets and liabilities be reported as net assets, not equity; that a Management's Discussion and Analysis (MD & A) section precede the basic financial statements; that the statements of cash flows use the direct method, and that plant assets be capitalized and depreciated over their useful lives. As the District has historically capitalized its assets and recorded depreciation, the only significant changes made in order to comply with the new requirements were the MD & A section and the reporting of the details of net assets.

In conjunction with the adoption of GASB 34, the District has also adopted the provisions of GASB No 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus", and GASB No. 38, "Certain Financial Statement Note Disclosures."

c. Utility Plant

Utility plant is stated at cost. The District capitalizes applicable overhead costs in connection with self-constructed assets. Depreciation of all exhaustible utility plant is charged as an expense in the accompanying statements of income. Depreciation is provided over the estimated useful lives of the asset using the straight-line method. Estimated useful lives are as follows:

Water system	5 to 50 years
Autos and trucks	3 to 5 years
Office equipment	5 to 10 years
Office and production facilities	10 to 40 years

d. Restricted Assets and Liabilities

Tax assessments received by the District from customers located in Improvement District No. 1 are restricted assets for the purpose of repaying general obligation serial bonds.

e. Uncollectible Accounts

The District's management estimates that accounts receivable are collectible. However, an allowance for uncollectible accounts at December 31, 2005 and 2004 is \$988, respectively. Unpaid water accounts receivable become a lien on the property and must be paid upon the sale of the property.

f. Cash and Cash Equivalents

The District defines cash and cash equivalents as demand account balances and cash on hand.

The District invests cash in excess of its operating requirements primarily with the State Treasurer's Local Agency Investment Fund (LAIF).

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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g. Investments

All investments are stated at fair value as required by GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Fair value is based on market price or contract amount.

h. Materials and Supplies

Materials and supplies are stated at cost and consist of expendable supplies held for consumption or future additions to Utility Plant.

i. Concentration of Credit Risk

The District's receivables are from consumers within a specific geographic area.

j. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

k. Budgetary Process

Each year, the District adopts a budget which provides for its general operations. Budgets are prepared on the accrual basis of accounting. The District follows these procedures in establishing the budget for the fiscal year:

- i. Formal budgetary integration is employed as a management control device during the year for the General Activity.
- ii. The Board approves the total budget for the year for the General Activity. The Board is authorized to make any budget adjustments during the year.
- iii. Unused appropriations lapse at the end of the year unless extended into the subsequent year by a vote of the Board of Directors.

l. Income Taxes

The District is exempt from income taxes under provisions of the Internal Revenue Code and related California statutes; accordingly, no provision for income taxes is required.

m. Compensated Absences

It is the District's policy to permit employees to accumulated paid time off for either vacation or illness in accordance with the terms expressed in its employee handbook. Upon termination, retirement or death of an employee, the District pays eligible accrued time in a lump-sum payment

KINNELOA IRRIGATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2005 AND 2004

to the employee or beneficiary. Accumulated paid time off is recorded as an expense and a liability at the time the benefit is earned.

**NOTE 2. Cash Deposits and Investments**

The District is permitted by State law and Board policy to invest in obligations deemed prudent. Such investments include interest bearing savings accounts, collateralized certificates of deposit, direct obligations of the United States Government and various federal agencies, approved money market funds and investment agreements, and various other approved investments. As mandated by state law, the District annually adopts its investment policy that defines allowable investments, restrictions on investment concentrations and maximum maturity periods, and other specific investment-related policies. The District has contracted with an investment advisor and given him authorization to make trades on the District's behalf, following the above guidelines. Currently, a majority of the District's cash deposits and investments are held at a single financial institution.

The District's cash deposits at December 31, 2005 were entirely covered by Federal depository insurance or by pledged collateral pools of either U.S. Government securities or mortgages. California Government Code requires California banks and savings and loan associations to secure a local agency's deposits by pledging 110% of government securities as collateral. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's total deposits. Such collateral, however, is not held specifically in the name of the District.

Investments of governmental agencies, in accordance with GASB No. 3, are classified in three categories to give an indication of the level of custodial risk assumed by the entity. Category 1 consists of investments that are insured or collateralized with securities held by the District or its agent in the District's name. Category 2 includes investments collateralized with securities held by the pledging institution's trust department or by its agent in the District's name. Category 3 consists of investments collateralized with securities held by the pledging institution, or by its trust department or agent, but not in the District's name.

	2005			Total
	Category			
	1	2	3	
Pooled cash	\$ 444,673			444,673
Interest bearing Demand accounts	166,288	-		166,288
US Treasury securities				
Federal agency securities	-	-	-	-
<b>Total cash and investments</b>	<b>\$ 610,961</b>	<b>0</b>	<b>0</b>	<b>610,961</b>

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 2. Cash Deposits and Investments, continued

	2004			Total
	Category			
	1	2	3	
Pooled cash	\$ 381,258			381,258
Interest bearing				
Demand accounts	66,373	-		66,373
US Treasury securities				
Federal agency securities	-	-	-	-
	-	-	-	-
Total cash and investments	\$ 447,631	0	0	447,631

NOTE 3. Capital Assets

Capital asset activity for the years ended December 31, 2005 and 2004 was as follows:

	2005			
	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700	-	-	96,700
Water rights	52,060	-	-	52,060
Buildings, wells and distribution system	4,490,883	48,734	-	4,539,617
Machinery and equipment	407,335		-	407,335
Construction in progress	-	-	-	-
	5,046,978	48,734	-	5,095,712
Less accumulated	(1,437,977)	(157,200)	-	(1,595,177)
Total capital assets	\$ 3,609,001	(108,466)	-	3,500,535

KINNELOA IRRIGATION DISTRICT  
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DECEMBER 31, 2005 AND 2004

NOTE 3. Capital Assets, continued

<b>2004</b>				
	Balance	Additions	Transfers	Balance
	January 1			December 31
Land	\$ 96,700	-	-	96,700
Water rights	52,060	-	-	52,060
Buildings, wells and distribution system	2,779,012	1,711,871	-	4,490,883
Machinery and equipment	407,335		-	407,335
Construction in progress	129,871		(129,871)	-
	3,464,978	1,711,871	-	5,046,978
Less accumulated	(1,321,858)	(116,119)	-	(1,437,977)
Total capital assets	\$ 2,143,120	1,827,990	-	3,609,001

Note 4 - Bonds Payable

The District issued \$600,000 of general obligation serial bonds in February 1975 to provide funds for the purchase and upgrade of Improvement District Number 1. The bonds were interest bearing at 8% per annum, payable semi-annually on January 1 and July 1. The bonds matured serially until July 1, 2004, in annual amounts. At December 31, 2004, the bonds were paid in full.

The bonds were repaid through tax assessments made on the land included in the Improvement District No. 1 in sufficient amounts, annually, to pay the interest and bond principal maturities during the year including a cash reserve.

Note 5 – Grant Proceeds

The District was approved by the State of California Governor's Office of Emergency Services to receive grant funds to repair part of the water system damaged by heavy rainfall. Temporary investments include the unexpended portion of the grant funds. Unused funds must be returned to the grantor. The District received \$89,788 in grant funds in 2005 and is expected to receive additional grant funds for the projects completed in 2006. Amounts are recognized as income upon performance of the repairs.

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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Note 6 - Pension Plan

Plan Description

The District contributes to the State of California Public Employees Retirement System ("PERS"), an agent multi-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by statute and city ordinance. Copies of PERS' annual financial report may be obtained from their offices located at 400 P Street, Sacramento, CA 95814.

All full time employees are eligible to participate as members of PERS. Benefits vest after five years of service. District employees are eligible to retire upon attaining age 60. Annual retirement benefits are determined based upon the age at retirement, the length of membership service and the amount of earnings based upon the highest twelve consecutive months average.

Funding Policy

For the years ended December 31, 2005 and 2004, participants were required to contribute 7 % of their annual covered salary. For an exempt employee, the District contributed the amount as an employee benefit. The District is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost

Annual pension cost was 2.568% for the six months ended June 30, 2005 and 5.273% for the six months ended December 31, 2005. The District made contributions of \$11,067 and \$6,991 for the years ended December 31, 2005 and 2004, respectively. The District does not have a Net Pension Obligation.

Actuarial Assumptions and Methods

The actuarial valuation is computed using the entry age normal actuarial cost method. The actuarial assumptions include: (a) an investment rate of return of 7.75% compounded annually (b) projected annual salary increases that vary by duration of service, and (c) payroll cost-of-living adjustments of 3.25% . The rates used in (a) and (b) are compounded annually at 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities

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are amortized over a specific period that depends upon the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of projected payroll over a closed 20-year period. The District does not have an unfunded liability.

The following presents a short history of the funded status of the entire PERS plan, covered payroll and related actuarial information:

Dollars in 1,000; Zeros Omitted

<u>Valuation Date</u>	<u>Accrued Liabilities</u>	<u>Actuarial Assets</u>	PERS <u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL as a % of Payroll</u>
06/30/04	437,494	428,025	9,469	97.8%	159,135	6.0%
06/30/03	430,372	429,814	557	99.9%	159,239	0.40%

**NOTE 7. Insurance Pools**

The District is a member of the Joint Powers Insurance Authority ("JPIA"), which pools together members of the Association of California Water Agencies for the purpose of paying group property, general liability and workers' compensation claims. Premiums are remitted directly to the JPIA by its members. The property portion is entirely self-funded, and the general liability self-funded portion is capped at \$500,000. Excess liability insurance in the amount of \$29,500,000 has been purchased by the Authority, bringing the total liability coverage to \$30,000,000.

To date, the District and its counsel are not aware of any material claims incurred through the period ended December 31, 2005 regarding these insurance plans.

**NOTE 8. Net Assets**

GASB 34 requires that the difference between assets and liabilities be reported as net assets, not equity. Net assets are classified as either restricted, unrestricted or invested in capital assets, net of debt.

Net assets that are invested in capital assets, net of debt consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition or construction of those assets.

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Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of debt." Unlike the restricted net assets, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net assets. The Board may at any time change or eliminate amounts established for these purposes.

NOTE 9 - Contingencies

The District is the subject of certain claims and assessment arising in the normal course of its operations. These include a proposed assessment by the California Regional Water Quality Control Board relating to certain environmental matters which the District vigorously opposes. Management of the District does not believe that the resolution of these matters will have a material adverse affect on the District's financial condition.

**SUPPLEMENTARY INFORMATION**

KINNELOA IRRIGATION DISTRICT  
SCHEDULE OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<b>Operating &amp; Maintenance</b>		
Power	\$ 56,499	87,536
Emergency water	30,000	30,228
Labor	170,998	158,656
Engineering	10,215	2,265
Maintenance supplies	21,632	12,972
Signal service	718	817
Water analysis	16,814	15,231
Outside contractors	90,516	42,783
Truck maintenance	10,811	16,133
Equipment rental	-	(437)
Insurance	67,867	58,102
Safety equipment	1,249	975
Raymond Basin study	-	4,243
Other	12,553	4,945
	<u>\$ 489,872</u>	<u>434,449</u>

<b>Administrative and General</b>		
Administrative salaries	\$ 77,718	72,206
Office labor	41,232	40,740
Payroll taxes	22,052	21,036
CalPERS retirement	11,067	6,991
Outside services	10,885	16,187
Legal fees	6,833	10,394
Professional dues	4,327	4,789
Board meetings	6,000	6,800
Office expense	21,841	23,949
Telephone	11,484	11,984
Accounting fees	5,900	5,900
Permits and operational fees	2,520	597
Information systems	8,200	3,774
Uncollectible accounts	-	-
	<u>\$ 230,059</u>	<u>225,347</u>