

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT



For the Years Ended December 31, 2008 and 2007

EGAN & EGAN
Certified Public Accountants

KINNELOA IRRIGATION DISTRICT

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007**

AND INDEPENDENT AUDITORS' REPORT

KINNELOA IRRIGATION DISTRICT
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DECEMBER 31, 2008 AND 2007

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KINNELOA IRRIGATION DISTRICT
BOARD OF DIRECTORS AND DISTRICT MANAGEMENT PERSONNEL
DECEMBER 31, 2008 AND 2007

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Richard L. Barkhurst	Chairman	2009
Steven G. Sorell	Treasurer	2011
Frank J. Griffith	Director	2009
Gerrie G. Kilburn	Director	2011
Maurice A. Pickard	Secretary	2011

MANAGEMENT PERSONNEL

Melvin L. Matthews	General Manager
Shirley Burt	Administrative Assistant

KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008 AND 2007

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, 2008. 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 14% to \$1,051,822 as compared to 2007 operating revenues of \$1,222,191. The decrease is primarily due to the unavailability of surplus water to sell to the City of Pasadena because of the continuing drought conditions as well as the response of our customers to our message of the need for conservation. The Board did not increase the rates in 2008 to compensate for the expected decrease in water sales.
- Total operating expenses including depreciation increased by 13% to \$1,117,920 as compared to 2007 operating expenses of \$981,807. The increase is primarily due to larger expenditures for maintenance and repair and the increase in the number of leaks that required repair as compared to 2007.

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.

DESCRIPTION OF OPERATIONS

The District provides water to 602 retail customers in a service area that includes a portion of the unincorporated Los Angeles County that is east of Altadena and an adjacent portion of the City of Pasadena. The District also sells excess groundwater when available to the City of Pasadena on a wholesale basis.

The District obtains its water from two wells and five water tunnels. These sources are sufficient to meet customer demand except in periods of extreme drought or other emergency. The District has five interconnections with the City of Pasadena municipal water system which allow either agency to supply water to the other agency under emergency conditions.

More information about the Kinneloa Irrigation District can be found on our Internet site at <http://www.kinneloairrigationdistrict.info>.

KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008 AND 2007

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2008 and 2007.

NET ASSETS

	<u>2008</u>	<u>2007</u>
Capital assets, net	\$3,736,903	\$3,748,525
Other assets, net	<u>1,102,958</u>	<u>1,131,268</u>
Total assets	4,839,861	4,879,793
Other liabilities	<u>120,046</u>	<u>61,490</u>
Total liabilities	<u>120,046</u>	<u>61,490</u>
Invested in capital assets, net of debt	3,736,903	3,748,525
Unrestricted	<u>982,912</u>	<u>1,069,778</u>
Total net assets	<u><u>\$4,719,815</u></u>	<u><u>\$4,818,303</u></u>

Capital and other assets – The change in capital and other assets is net of an increase in capital assets primarily due to capital improvement projects and replacement vehicles in the amount of \$204,599 less current year's depreciation of \$234,426.

Net assets – Unrestricted net assets decreased from the prior year due to the current year's excess of expenses over 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, 2008 AND 2007

CHANGES IN NET ASSETS

	<u>2008</u>	<u>2007</u>
Total operating revenues	\$ 1,051,822	1,222,191
Total non-operating revenues	<u>27,610</u>	<u>258,900</u>
Total revenues	1,079,432	1,481,091
Total operating expenses	<u>1,177,920</u>	<u>981,807</u>
Total expenses	<u>1,177,920</u>	<u>981,807</u>
Change in net assets	(98,488)	499,284
Net assets, beginning of year	<u>4,818,303</u>	<u>4,319,019</u>
Net assets, end of year	<u>\$ 4,719,815</u>	<u>4,818,303</u>

Revenues – Retail water sales decreased 9% in 2008 as compared to 2007 to 741 acre-feet or 241 million gallons. Total operating revenue decreased 14% over 2008 to \$1,051,822. The District did not have any surplus water in 2008 to sell to the City of Pasadena. This explains why the total operating revenue decreased more than the retail water sales. For 2008, the District also received \$27,610 in non-operating revenue from interest on its investments. The amount of the District's temporary investments at year end was \$483,380 and \$507,781 in 2008 and 2007, respectively. The decrease is attributed to the decrease in net assets of the District.

Expenses – The District's operating and maintenance expenses increased by \$120,284 in 2008 as compared to 2007. The increase is due primarily to the greater number of leak repairs that were required. The District's general and administrative expenses increased by \$42,864, primarily due to increases in administrative salaries, retirement contributions to the California Public Employees Retirement System, outside services and general office expenses.

BUDGET ANALYSIS AND VARIANCES

Revenue from water sales for 2008 was \$1,051,822 which is higher than the budgeted amount of \$1,000,000. The budgeted revenue was based on the actual amount from the previous year, adjusted for rate changes and/or expected new service connections for the year. Revenue from wholesale water sales was not budgeted for 2008 since this source of revenue is discretionary and not predictable.

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008 AND 2007**

BUDGET ANALYSIS AND VARIANCES (continued)

Overall, for 2008, the net revenue surplus before depreciation was \$135,941, as compared to the budgeted amount of \$236,465. Capital and planned maintenance projects in the amount of \$167,077 were completed as compared to the budgeted amount of \$371,000. The lower expenditure was because of the deferral of the construction of a major pipeline project to 2009. The cash reserve at year end was \$733,380 as compared with the minimum target level of \$550,000 established by the Board. Part of this reserve will be used for the pipeline project early in 2009.

Each year the District budgets amounts for capital projects and planned maintenance projects based on its expected operations and available reserves. In 2008, the projects included: (1) Purchase of two replacement trucks, (2) facility electrical upgrades, (3) purchase of an emergency generator and (4) engineering and preparation of plans and specifications for the Kinneloa Mesa replacement pipeline that will be constructed in 2009.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2008 and 2007, the District had investments in land, buildings, wells and distribution systems, machinery and equipment, and construction in progress as follows.

	<u>2008</u>	<u>2007</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	4,988,954	4,738,850
Machinery and equipment	450,892	443,246
Construction in progress	<u>128,392</u>	<u>101,679</u>
Totals	<u>\$ 5,716,998</u>	<u>5,432,535</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Inflation as measured by the consumer price index for all urban consumers in the Los Angeles area was 3.5% for the 12 months ended December 2008.
- The general economic picture in 2009 is expected to reflect a significant recession and the economic impact will include job loss among our customers, possible foreclosures and a reduction in consumer spending. Although water service is considered a necessity, these conditions along with our conservation message could significantly affect water sales

KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008 AND 2007

- The Board of Directors voted to increase rates by 7% effective January 1, 2009 and use reserves if necessary to complete budgeted capital and planned maintenance projects for 2009.
- Weather will continue to play a significant role in determining water sales for 2009. If conservation measures are successful, we might have surplus water to sell to the City of Pasadena. This would offset any decline in retail sales.

These factors when combined are anticipated to have a neutral effect on the District's operations in 2009. The District has the flexibility to adjust expenditures for capital improvements and planned maintenance if necessary to meet the overall budget objectives for 2009.

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 Drive, Pasadena, CA 91107

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, 2008 and 2007, 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, 2008 and 2007 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 20 for the years ended December 31, 2008 and 2007 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.

February 12, 2009

**KINNELOA IRRIGATION DISTRICT
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash	\$ 194,821	192,627
Temporary investments	483,380	507,781
Temporary investments, restricted as to use	250,000	250,000
Receivables		
Water sales, net of allowance for doubtful accounts	130,325	137,318
Other receivables	977	2,299
Prepaid expenses	23,455	21,243
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	1,102,958	1,131,268
Capital assets, net of accumulated depreciation	<u>3,736,903</u>	<u>3,748,525</u>
TOTAL ASSETS	<u>\$ 4,839,861</u>	<u>4,879,793</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of lease payable	\$ 15,674	-
Accounts payable and accrued expenses	12,380	43,202
Accrued payroll and payroll taxes	13,796	11,940
Customer deposits	<u>7,198</u>	<u>6,348</u>
Total current liabilities	49,048	61,490
Lease obligation, net of current portion	<u>70,998</u>	<u>-</u>
Total liabilities	120,046	61,490
Net assets		
Invested in capital assets, net of related debt	3,736,903	3,748,525
Restricted for debt service	-	-
Unrestricted	<u>982,912</u>	<u>1,069,778</u>
Total net assets	<u>4,719,815</u>	<u>4,818,303</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,839,861</u>	<u>4,879,793</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, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Operating revenues		
Water sales and service fees	\$ <u>1,051,822</u>	<u>1,222,191</u>
Operating expenses		
Operating and maintenance	657,891	537,607
Administration and general	285,603	242,739
Depreciation	<u>234,426</u>	<u>201,461</u>
Total operating expenses	<u>1,177,920</u>	<u>981,807</u>
Operating (loss) income	<u>(126,098)</u>	<u>240,384</u>
Non-operating revenues (expenses)		
Interest	27,610	27,287
Grant income	<u>-</u>	<u>231,613</u>
Total non-operating revenue	<u>27,610</u>	<u>258,900</u>
Change in net assets	(98,488)	499,284
Net assets, beginning of year	<u>4,818,303</u>	<u>4,319,019</u>
Net assets, end of year	<u>\$ <u>4,719,815</u></u>	<u><u>4,818,303</u></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, 2008 AND 2007**

Cash flows from operating activities:	<u>2008</u>	<u>2007</u>
Cash received from customers	\$ 1,060,137	1,263,191
Cash payments to employees for services	(257,416)	(308,316)
Cash payments for services and goods	<u>(717,256)</u>	<u>(546,423)</u>
Net cash provided by operating activities	<u>85,465</u>	<u>408,452</u>
 Cash flows from capital and related financing		
Cash paid for construction and acquisition of capital	(222,804)	(284,463)
Proceeds from lease obligation	86,672	-
Customer deposits	850	(6,025)
Grant income	<u>-</u>	<u>189,195</u>
Cash used by capital and related financing activities	<u>(135,282)</u>	<u>(101,293)</u>
 Cash flows from investing activities:		
Interest received	<u>27,610</u>	<u>27,287</u>
Cash provided by investing activities	<u>27,610</u>	<u>27,287</u>
Net increase in cash and cash equivalents	(22,207)	334,446
Cash and temporary investments, beginning of the year	<u>950,408</u>	<u>615,962</u>
Cash and temporary investments, end of the year	<u><u>\$ 928,201</u></u>	<u><u>950,408</u></u>
 SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS		
Cash	\$ 194,821	192,627
Temporary investments	483,380	507,781
Temporary investments, restricted as to use	<u>250,000</u>	<u>250,000</u>
Total cash	<u><u>\$ 928,201</u></u>	<u><u>950,408</u></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, 2008 AND 2007**

Reconciliation of operating income to net cash operating activities:	<u>2008</u>	<u>2007</u>
Operating income	\$ (126,098)	240,384
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	234,426	201,461
Decrease (increase) in receivables	8,315	34,975
(Increase) decrease in prepaid expenses	(2,212)	(4,368)
(Decrease) increase in accounts payable and accrued expenses	<u>(28,966)</u>	<u>(64,000)</u>
Net cash provided by operating activities	<u>\$ 85,465</u>	<u>408,452</u>

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

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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, 2008, The Board of Directors were as follows:

<u>Name</u>	<u>Title</u>
Richard L. Barkhurst	Chairman
Steven G. Sorell	Treasurer
Frank J. Griffith	Director
Gerrie G. Kilburn	Director
Maurice A. Pickard	Secretary

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, 2008 AND 2007

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:

	<u>Number of Years</u>
Water system	5 to 50
Autos and trucks	3 to 5
Office equipment	5 to 10
Office and production facilities	10 to 40

d. Restricted Assets and Liabilities

The Board of Directors has designated a portion of the District's temporary investments to be maintained for future capital improvements.

e. Uncollectible Accounts

The District's management estimates that accounts receivable are collectible. 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
DECEMBER 31, 2008 AND 2007

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, 2008 AND 2007

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, 2008 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.

	2008			Total
	Category			
	1	2	3	
Pooled cash	\$ 733,380	-	-	733,380
Interest bearing Demand accounts	194,821	-	-	194,821
US Treasury securities	-	-	-	-
Federal agency securities	-	-	-	-
Total cash and investments	\$ <u>928,201</u>	<u>-</u>	<u>-</u>	<u>928,201</u>

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 2. Cash Deposits and Investments, continued

	2007			
	Category			Total
	1	2	3	
Pooled cash	\$ 757,781	-	-	757,781
Interest bearing				
Demand accounts	192,627	-	-	192,627
US Treasury securities				
Federal agency securities	-	-	-	-
	-	-	-	-
Total cash and investments	\$ 950,408	-	-	950,408

NOTE 3. Capital Assets

Capital asset activity for the years ended December 31, 2008 and 2007 was as follows:

	2008			
	Balance January 1	Additions	Transfers & Retirements	Balance December 31
Land	\$ 96,700	-	-	96,700
Water rights	52,060	-	-	52,060
Buildings, wells and distribution system	4,988,954	164,051	30,551	5,183,556
Machinery and equipment	450,892	198,225	(98,660)	550,457
Construction in progress	128,392	57,029	(128,392)	57,029
	5,716,998	419,305	-	5,939,802
Less accumulated	(1,968,473)	(468,852)	(234,426)	(2,202,899)
Total capital assets	\$ 3,748,525	(49,547)	-	3,736,903

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 3. Capital Assets, continued

2007

	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700	-	-	96,700
Water rights	52,060	-	-	52,060
Buildings, wells and distribution system	4,738,850	148,425	101,679	4,988,954
Machinery and equipment	443,246	7,646	-	450,892
Construction in progress	101,679	128,392	(101,679)	128,392
	5,432,535	284,463	-	5,716,998
Less accumulated	(1,767,012)	(201,461)	-	(1,968,473)
Total capital assets	\$ 3,665,523	485,924	-	3,748,525

Note 4 – 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. Unused funds must be returned to the grantor. Amounts are recognized as income upon performance of the repairs.

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

KINNELOA IRRIGATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2008 AND 2007

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, 2008 and 2007, 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 5.072% for the year ended December 31, 2008. The District made contributions of \$11,510 and \$8,294 for the years ended December 31, 2008 and 2007, 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 3.25%. 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 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:

<u>Dollars in 1,000; Zeros Omitted</u>						
<u>Valuation Date</u>	<u>Accrued Liabilities</u>	<u>Actuarial Assets</u>	<u>PERS Unfunded Liabilities (UL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL as a % of Payroll</u>
6/30/2007	498,935	479,521	19,414	96.1%	171,053	11.3%
6/30/2006	478,122	454,603	23,519	95.1%	170,458	13.8%
6/30/2005	484,351	459,997	24,354	95.0%	174,127	14.0%
6/30/2004	437,494	428,025	9,469	97.8%	159,135	6.0%

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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, 2008 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.

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. 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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Operating & Maintenance		
Power	\$ 87,993	106,790
Labor	161,779	165,696
Engineering	24,239	2,938
Maintenance and repairs	163,853	33,090
Signal service	713	806
Water analysis	19,765	16,750
Outside contractors	109,301	120,564
Truck maintenance	5,305	6,701
Insurance	60,371	63,484
Safety equipment	1,595	1,535
Other	<u>22,977</u>	<u>19,253</u>
	<u>\$ 657,891</u>	<u>537,607</u>

Administrative and General		
Administrative salaries	\$ 97,493	87,092
Office labor	45,465	45,044
Payroll taxes	23,651	23,464
CalPERS retirement	17,202	13,239
Outside services	21,973	16,979
Legal fees	5,458	5,200
Professional dues	6,739	5,951
Board meetings	5,900	6,200
Office expense	33,621	19,007
Telephone	9,574	9,380
Accounting fees	6,200	4,800
Permits and operational fees	7,989	584
Information systems	<u>4,338</u>	<u>5,799</u>
	<u>\$ 285,603</u>	<u>242,739</u>