

KINNELOA IRRIGATION DISTRICT

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006**

AND INDEPENDENT AUDITORS' REPORT

KINNELOA IRRIGATION DISTRICT
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DECEMBER 31, 2007 AND 2006

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KINNELOA IRRIGATION DISTRICT
BOARD OF DIRECTORS AND DISTRICT MANAGEMENT PERSONNEL
DECEMBER 31, 2007 AND 2006

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, 2007 AND 2006

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, 2007. 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 increased by 7.3% to \$1,222,191 as compared to 2006 operating revenues of \$1,139,378. The increase is primarily due to increased in water usage by all District customers due to the drought condition in Southern California and a modest rate increase.
- Total operating expenses including depreciation decreased by 1.1% to \$981,807 as compared to 2006 operating expenses of \$992,314. The decrease is primarily due to expenditures for maintenance and repair projects decreasing from 2006.

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, 2007 AND 2006

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2007 and 2006.

NET ASSETS

	<u>2007</u>	<u>2006</u>
Capital assets, net	\$3,748,525	\$3,665,523
Other assets, net	1,131,268	827,429
Total assets	<u>4,879,793</u>	<u>4,492,952</u>
Other liabilities	61,490	173,933
Total liabilities	<u>61,490</u>	<u>173,933</u>
Invested in capital assets, net of debt	3,748,525	3,665,523
Unrestricted	<u>1,069,778</u>	<u>653,496</u>
Total net assets	<u>\$4,818,303</u>	<u>\$4,319,019</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, 2007 AND 2006

CHANGES IN NET ASSETS

	<u>2007</u>	<u>2006</u>
Total operating revenues	\$ 1,222,191	1,139,378
Total non-operating revenues	<u>258,900</u>	<u>56,080</u>
Total revenues	1,481,091	1,195,458
Total operating expenses	<u>981,807</u>	<u>992,314</u>
Total expenses	<u>981,807</u>	<u>992,314</u>
Change in net assets	499,284	203,144
Net assets, beginning of year	<u>4,319,019</u>	<u>4,115,875</u>
Net assets, end of year	<u>\$ 4,818,303</u>	<u>4,319,019</u>

Revenues – Retail water usage increased 4.6% over 2006 to 814 acre-feet or 265 million gallons. Total operating revenue increased 7.3% over 2006 to \$1,222,191. The District also sold 200 acre-feet or 65 million gallons to the City of Pasadena. For 2007, the District also received \$258,900 in non-operating revenue from interest on its investments and from public disaster assistance grants. The amount of the District's temporary investments at year end were \$507,781 and \$300,596 in 2007 and 2006, respectively. The increase is attributed to the increase in net assets of the District.

Expenses – The District's operating and maintenance expenses decreased by \$37,732. The decrease is due primarily to the reduction in maintenance expenses. The District's general and administrative expenses decreased by \$2,401, which is a 1.1% decrease over 2006 expenses.

BUDGET ANALYSIS AND VARIANCES

Revenues from water sales for 2007 were \$1,222,191 and were higher than the budgeted amount of \$990,732. 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 2007 since this source of revenue is discretionary and not predictable.

KINNELOA IRRIGATION DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 DECEMBER 31, 2007 AND 2006

BUDGET ANALYSIS AND VARIANCES (continued)

Overall, for 2007, the net revenue surplus before depreciation was \$297,823, as compared to the budgeted amount of \$362,715. This result is due primarily to the timing of completed projects. Capital and planned maintenance projects in the amount of \$419,382 were completed as compared to the budgeted amount of \$290,400. The budgeted amount did not include the FEMA funded tunnel project in the amount of \$224,805 as offset by \$189,195 of disaster assistance revenue. The cash reserves at year end were \$757,781 as compared with the budgeted amount of \$550,000.

Each year the District budgets amounts for capital projects and planned maintenance based on its expected operations and available reserves. In 2007, the majority of the budgeted amount of \$290,400 was spent on four major projects: (1) Completion of the installation of continuous chlorine residual analyzers, (2) Facility electrical upgrades, (3) completion of the installation of automated tank and reservoir valves (4) New York Drive pipeline project.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2007 and 2006, the District had investments in land, buildings, wells and distribution systems, machinery and equipment, and construction in progress as follows).

	<u>2007</u>	<u>2006</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 3.3% for the 12 months ended December 2007.

KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007 AND 2006

- The Board of Directors voted to maintain current rates and use reserves if necessary to complete budgeted capital and planned maintenance projects for 2008.
- Weather will continue to play a significant role in determining water sales for 2008. If the current drought continues and if conservation measurers are successful, it may be necessary to adjust expenditures for capital and planned maintenance. However, since water sales usually increase in dry years, we do not expect a major change in water sales for 2008 except that we will not have surplus water to sell to the City of Pasadena.

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 other expenses would moderate the benefit to the District. Weather conditions will continue to play a significant role in determining water sales for 2007.

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, 2007 and 2006, 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, 2007 and 2006 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, 2007 and 2006 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 7, 2008

**KINNELOA IRRIGATION DISTRICT
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash	\$ 192,627	22,948
Temporary investments	507,781	300,596
Temporary investments, restricted as to use	250,000	292,418
Receivables		
Water sales, net of allowance for doubtful accounts of	137,318	171,824
Other receivables	2,299	2,768
Prepaid expenses	21,243	16,875
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	1,131,268	827,429
Capital assets, net of accumulated depreciation	<u>3,748,525</u>	<u>3,665,523</u>
TOTAL ASSETS	<u>\$ 4,879,793</u>	<u>4,492,952</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 43,202	105,660
Accrued payroll and payroll taxes	11,940	13,482
Customer deposits	6,348	12,373
Deferred income	<u>-</u>	<u>42,418</u>
Total current liabilities	61,490	173,933
Net assets		
Invested in capital assets, net of related debt	3,748,525	3,665,523
Unrestricted	<u>1,069,778</u>	<u>653,496</u>
Total net assets	<u>4,818,303</u>	<u>4,319,019</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,879,793</u>	<u>4,492,952</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, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Operating revenues		
Water sales and service fees	\$ <u>1,222,191</u>	<u>1,139,378</u>
Operating expenses		
Operating and maintenance	537,607	575,339
Administration and general	242,739	245,140
Depreciation	<u>201,461</u>	<u>171,835</u>
Total operating expenses	<u>981,807</u>	<u>992,314</u>
Operating income	<u>240,384</u>	<u>147,064</u>
Non-operating revenues (expenses)		
Interest	27,287	24,713
Grant income	<u>231,613</u>	<u>31,367</u>
Total non-operating revenue	<u>258,900</u>	<u>56,080</u>
Change in net assets	499,284	203,144
Net assets, beginning of year	<u>4,319,019</u>	<u>4,115,875</u>
Net assets, end of year	<u>\$ <u>4,818,303</u></u>	<u><u>4,319,019</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, 2007 AND 2006**

Cash flows from operating activities:	<u>2007</u>	<u>2006</u>
Cash received from customers	\$ 1,263,191	1,055,853
Cash payments to employees for services	(308,316)	(326,946)
Cash payments for services and goods	<u>(546,423)</u>	<u>(411,796)</u>
Net cash provided by operating activities	<u>408,452</u>	<u>317,111</u>
Cash flows from capital and related financing		
Cash paid for construction and acquisition of capital	(284,463)	(342,848)
Customer deposits	(6,025)	6,025
Grant income	<u>189,195</u>	<u> </u>
Cash used by capital and related financing activities	<u>(101,293)</u>	<u>(336,823)</u>
Cash flows from investing activities:		
Interest received	<u>27,287</u>	<u>24,713</u>
Cash provided by investing activities	<u>27,287</u>	<u>24,713</u>
Net increase in cash and cash equivalents	334,446	5,001
Cash and temporary investments, beginning of the year	<u>615,962</u>	<u>610,961</u>
Cash and temporary investments, end of the year	<u>\$ 950,408</u>	<u>615,962</u>
SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS		
Cash	\$ 192,627	22,948
Temporary investments	507,781	300,596
Temporary investments, restricted as to use	<u>250,000</u>	<u>292,418</u>
Total cash	<u>\$ 950,408</u>	<u>615,962</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, 2007 AND 2006**

Reconciliation of operating income to net cash operating activities:	<u>2007</u>	<u>2005</u>
Operating income	\$ 240,384	147,064
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	201,461	171,835
Decrease (increase) in receivables	34,975	(83,525)
(Increase) decrease in prepaid expenses	(4,368)	549
(Decrease) increase in accounts payable and accrued expenses	<u>(64,000)</u>	<u>81,188</u>
Net cash provided by operating activities	<u>\$ 408,452</u>	<u>317,111</u>

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

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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, 2007, 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
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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, 2007 AND 2006

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, 2007 AND 2006

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, 2007 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.

	2007			Total
	Category			
	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	\$ <u>950,408</u>	<u>-</u>	<u>-</u>	<u>950,408</u>

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

	2006			Total
	Category			
	1	2	3	
Pooled cash	\$ 550,596	-	-	550,596
Interest bearing				
Demand accounts	65,366	-	-	65,366
US Treasury securities				
Federal agency securities	-	-	-	-
Total cash and investments	\$ 615,962	-	-	615,962

NOTE 3. Capital Assets

Capital asset activity for the years ended December 31, 2007 and 2006 was as follows:

	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	83,002	-	3,748,525

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 3. Capital Assets, continued

2006				
	Balance	Additions	Transfers	Balance
	January 1			December 31
Land	\$ 96,700	-	-	96,700
Water rights	52,060	-	-	52,060
Buildings, wells and distribution system	4,539,617	199,233	-	4,738,850
Machinery and equipment	407,335	35,911	-	443,246
Construction in progress	-	101,679	-	101,679
	5,095,712	336,823	-	5,432,535
Less accumulated	(1,595,177)	(171,835)	-	(1,767,012)
Total capital assets	\$ 3,500,535	508,658	-	3,665,523

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. As of December 31, 2006, temporary investments include the unexpended portion of the grant funds. 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
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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, 2007 and 2006, 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, 2007. The District made contributions of \$8,294 and \$10,540 for the years ended December 31, 2007 and 2006, 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:

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>
06/30/06	478,122	479,918	-	100.4%	170,458	-
06/30/05	484,351	459,997	24,354	95.0%	174,127	14.0%
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	40.0%

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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, 2007 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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating & Maintenance		
Power	\$ 106,790	105,330
Labor	165,696	145,933
Engineering	2,938	22,142
Maintenance and repairs	33,090	108,895
Signal service	806	799
Water analysis	16,750	21,537
Outside contractors	120,564	69,075
Truck maintenance	6,701	10,471
Insurance	63,484	70,611
Safety equipment	1,535	2,155
Other	<u>19,253</u>	<u>18,391</u>
	<u>\$ 537,607</u>	<u>575,339</u>

Administrative and General		
Administrative salaries	\$ 87,092	82,162
Office labor	45,044	43,317
Payroll taxes	23,464	22,932
CalPERS retirement	13,239	16,629
Outside services	16,979	17,213
Legal fees	5,200	6,193
Professional dues	5,951	2,621
Board meetings	6,200	5,300
Office expense	19,007	23,104
Telephone	9,380	10,750
Accounting fees	4,800	6,000
Permits and operational fees	584	1,035
Information systems	<u>5,799</u>	<u>7,884</u>
	<u>\$ 242,739</u>	<u>245,140</u>