

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**



**For the Years Ended December 31, 2009 and 2008**

**EGAN & EGAN**  
Certified Public Accountants

**KINNELOA IRRIGATION DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

**AND INDEPENDENT AUDITORS' REPORT**

KINNELOA IRRIGATION DISTRICT  
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DECEMBER 31, 2009 AND 2008

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KINNELOA IRRIGATION DISTRICT  
BOARD OF DIRECTORS AND DISTRICT MANAGEMENT PERSONNEL  
DECEMBER 31, 2009 AND 2008

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Richard L. Barkhurst	Chairman	2013
Steven G. Sorell	Treasurer	2011
Gerrie G. Kilburn	Secretary	2011
Frank J. Griffith	Director	2013
Maurice A. Pickard	Director	2011

MANAGEMENT PERSONNEL

Melvin L. Matthews	General Manager
Shirley Burt	Administrative Assistant

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009 AND 2008**

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, 2009. 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 3.8% to \$1,092,336 as compared to 2008 operating revenues of \$1,051,822. The increase is primarily due to a 7.8% rate increase effective January 1, 2009 offset by the expected decrease in water volume.
- Total operating expenses including depreciation decreased by 6.5% to \$1,101,065 as compared to 2008 operating expenses of \$1,177,920. The decrease is primarily due to less expended for maintenance and repair, outside services and office expenses.

**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.kinneloa Irrigation District.info>.

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2009 and 2008.

NET ASSETS

	<u>2009</u>	<u>2008</u>
Capital assets, net	\$3,976,147	\$3,736,903
Other assets, net	866,777	1,102,958
Total assets	<u>4,842,924</u>	<u>4,839,861</u>
Other liabilities	124,272	120,046
Total liabilities	<u>124,272</u>	<u>120,046</u>
Invested in capital assets, net of debt	3,976,147	3,736,903
Unrestricted	<u>742,505</u>	<u>982,912</u>
Total net assets	<u><u>\$4,718,652</u></u>	<u><u>\$4,719,815</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 \$481,250 less current year's depreciation of \$242,006.

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  
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CHANGES IN NET ASSETS

	<u>2009</u>	<u>2008</u>
Total operating revenues	\$ 1,092,336	1,051,822
Total non-operating revenues	<u>11,683</u>	<u>27,610</u>
Total revenues	1,104,019	1,079,432
Total operating expenses	<u>1,101,065</u>	<u>1,177,920</u>
Total non-operating expenses	<u>4,117</u>	<u>-</u>
Total expenses	<u>1,105,182</u>	<u>1,177,920</u>
Change in net assets	(1,163)	(98,488)
Net assets, beginning of year	<u>4,719,815</u>	<u>4,818,303</u>
Net assets, end of year	<u>\$ 4,718,652</u>	<u>4,719,815</u>

Revenues – Retail water sales by volume decreased 8% to 682 acre-feet in 2009 as compared to 2008. However, total operating revenue increased 3.8% due to a 7.8% rate increase plus revenue from wholesale water sales and construction water sales.

For 2009, the District also received \$11,683 in non-operating revenue from interest on its investments. The amount of the District's temporary investments at year end was \$485,064 and \$733,380 in 2009 and 2008, respectively. The decrease is attributed to the decrease in net assets of the District and expenditures for capital improvement projects.

Expenses – The District's operating and maintenance expenses decreased by \$93,391 in 2009 as compared to 2008. The decrease is due primarily to less expenditures for maintenance and repair. The District's general and administrative expenses increased by \$8,956, primarily due to increases in administrative salaries, offset by decreases in outside services and general office expenses as well as a reduction in contributions to the California Employees Retirement System because of a change in Board policy in 2009.

BUDGET ANALYSIS AND VARIANCES

Revenue from retail and wholesale water sales for 2009 was \$1,092,336 which is higher than the budgeted amount of \$1,075,795. 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 2009 since this source of revenue is discretionary and not predictable.

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009 AND 2008**

BUDGET ANALYSIS AND VARIANCES, (continued)

Overall, for 2009, the net revenue surplus before depreciation was \$243,169, as compared to the budgeted amount of \$327,945. Capital and planned maintenance projects in the amount of \$481,250 were completed as compared to the budgeted amount of \$345,000. The increase was due to completion of projects carried over from 2008. The cash reserve at year end was \$485,064 as compared with the target level of \$550,000 established by the Board. Part of this reserve was used for the pipeline project in 2009.

Each year the District budgets amounts for capital projects and planned maintenance projects based on its expected operations and available reserves. In 2009, the projects included a pipeline project.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2009 and 2008, the District had investments in land, buildings, wells and distribution systems, machinery and equipment, and construction in progress as follows.

	<u>2009</u>	<u>2008</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	5,684,435	5,183,556
Machinery and equipment	587,857	550,457
Construction in progress	-	<u>57,029</u>
 Totals	 <u>\$ 6,421,052</u>	 <u>5,939,802</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 (0.8%) for the 12 months ended December 2009.
- The general economic picture in 2010 is expected to reflect a continued significant recession and the economic impact may 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 increased emphasis on conservation could significantly affect water sales. This combination of factors has already resulted in a 14% reduction in water use over the past two years and this reduction is projected to continue in 2010 and beyond as we strive to meet an expected 30% reduction in our ground water supply by July 2014 due to the drought and conditions in the local aquifer.



**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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- In order to maintain revenues, the Board of Directors voted to increase fixed monthly service charges by 19.5% and commodity charges by 8% effective January 1, 2010 and use reserves if necessary to complete budgeted capital and planned maintenance projects for 2010.
- Weather will continue to play a significant role in determining water sales for 2010. If conservation measures are successful and rainfall is normal, we might have surplus water to sell to the City of Pasadena. This could offset any decline in retail sales.

These factors when combined are anticipated to have a neutral effect on the District's operations in 2010. The District has the flexibility to adjust expenditures for capital improvements and planned maintenance if necessary to meet the overall budget objectives for 2010.

**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

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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, 2009 and 2008, 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, 2009 and 2008 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, 2009 and 2008 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*

**KINNELOA IRRIGATION DISTRICT  
BALANCE SHEETS  
DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 187,740	194,821
Temporary investments	235,064	483,380
<b>Temporary investments, restricted as to use</b>	250,000	250,000
Receivables		
Water sales, net of allowance for doubtful accounts of	118,621	130,325
Other receivables	28,447	977
Prepaid expenses	26,905	23,455
Materials and supplies	20,000	20,000
Total current assets	<u>866,777</u>	<u>1,102,958</u>
<b>Capital assets, net of accumulated depreciation</b>	<u>3,976,147</u>	<u>3,736,903</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,842,924</u>	<u>4,839,861</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Current portion of lease payable	\$ 16,513	15,674
Accounts payable and accrued expenses	16,917	12,380
Accrued payroll and payroll taxes	14,350	13,796
Customer deposits	22,097	7,198
Total current liabilities	<u>69,877</u>	<u>49,048</u>
<b>Lease obligation, net of current portion</b>	<u>54,395</u>	<u>70,998</u>
Total liabilities	<u>124,272</u>	<u>120,046</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	3,976,147	3,736,903
Restricted for debt service	-	-
Unrestricted	742,505	982,912
Total net assets	<u>4,718,652</u>	<u>4,719,815</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,842,924</u>	<u>4,839,861</u>

**KINNELOA IRRIGATION DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Operating revenues		
Water sales and service fees	\$ <u>1,092,336</u>	<u>1,051,822</u>
Operating expenses		
Operating and maintenance	564,500	657,891
Administration and general	294,559	285,603
Depreciation	<u>242,006</u>	<u>234,426</u>
Total operating expenses	<u>1,101,065</u>	<u>1,177,920</u>
Operating loss	<u>(8,729)</u>	<u>(126,098)</u>
Non-operating revenues (expenses)		
Interest	11,683	27,610
Interest expense	<u>(4,117)</u>	<u>-</u>
Total non-operating revenue	<u>7,566</u>	<u>27,610</u>
Change in net assets	(1,163)	(98,488)
Net assets, beginning of year	<u>4,719,815</u>	<u>4,818,303</u>
Net assets, end of year	<u>\$ <u>4,718,652</u></u>	<u><u>4,719,815</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, 2009 AND 2008**

<b>Cash flows from operating activities:</b>	<u><b>2009</b></u>	<u><b>2008</b></u>
Cash received from customers	\$ 1,076,570	1,060,137
Cash payments to employees for services	(329,588)	(311,015)
Cash payments for services and goods	<u>(527,830)</u>	<u>(663,657)</u>
Net cash provided by operating activities	<u>219,152</u>	<u>85,465</u>
 <b>Cash flows from capital and related financing</b>		
Cash paid for construction and acquisition of capital	(481,250)	(222,804)
Principal paid on lease obligation	(15,764)	-
Proceeds from lease obligation	-	86,672
Customer deposits	<u>14,899</u>	<u>850</u>
Cash used by capital and related financing activities	<u>(482,115)</u>	<u>(135,282)</u>
 <b>Cash flows from investing activities:</b>		
Interest received	11,683	27,610
Interest paid	<u>(4,117)</u>	<u>-</u>
Cash provided by investing activities	<u>7,566</u>	<u>27,610</u>
Net increase in cash and cash equivalents	(255,397)	(22,207)
Cash and temporary investments, beginning of the year	<u>928,201</u>	<u>950,408</u>
Cash and temporary investments, end of the year	<u><u>\$ 672,804</u></u>	<u><u>928,201</u></u>
 <b>SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS</b>		
Cash	\$ 187,740	194,821
Temporary investments	235,064	483,380
Temporary investments, restricted as to use	<u>250,000</u>	<u>250,000</u>
Total cash	<u><u>\$ 672,804</u></u>	<u><u>928,201</u></u>

**KINNELOA IRRIGATION DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

<b>Reconciliation of operating income to net cash operating activities:</b>	<u><b>2009</b></u>	<u><b>2008</b></u>
Operating loss	\$ (8,729)	(126,098)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	242,006	234,426
(Increase) decrease in receivables	(15,766)	8,315
(Increase) in prepaid expenses	(3,450)	(2,212)
Increase (decrease) in accounts payable and accrued expenses	<u>5,091</u>	<u>(28,966)</u>
Net cash provided by operating activities	<u>\$ 219,152</u>	<u>85,465</u>

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

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**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, 2009, The Board of Directors were as follows:

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

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental enterprise funds. 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  
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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

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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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. Currently, a majority of the District's cash deposits and investments are held at the State of California Investment Fund.

The District's cash deposits at December 31, 2009 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.

	2009			Total
	Category			
	1	2	3	
Pooled cash	\$ 235,064	-	250,000	485,064
Interest bearing				
Demand accounts	187,740	-	-	187,740
US Treasury securities				
Federal agency securities	-	-	-	-
Total cash and investments	<u>\$ 422,804</u>	<u>-</u>	<u>-</u>	<u>672,804</u>

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

	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	-	-	-	-
<b>Total cash and investments</b>	<b>\$ 928,201</b>	<b>-</b>	<b>-</b>	<b>928,201</b>

**NOTE 3. Capital Assets**

Capital asset activity for the years ended December 31, 2009 and 2008 was as follows:

	2009			Balance December 31
	Balance January 1	Additions	Transfers	
Land	\$ 96,700			96,700
Water rights	52,060			52,060
Buildings, wells and distribution system	5,183,556	443,850	57,029	5,684,435
Machinery and equipment	550,457	37,400		587,857
Construction in progress	57,029		(57,029)	-
	5,939,802	481,250		6,421,052
Less accumulated	(2,202,899)	(242,006)		(2,444,905)
<b>Total capital assets</b>	<b>\$ 3,736,903</b>	<b>239,244</b>		<b>3,976,147</b>

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 3. Capital Assets, continued

		2008			
		Balance January 1	Additions	Transfers	Balance December 31
Land	\$	96,700	-	-	96,700
Water rights		52,060	-	-	52,060
Buildings, wells and distribution system		4,988,954	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	(196,501)	5,939,802
Less accumulated		(1,968,473)	(468,852)	(234,426)	(2,202,899)
Total capital assets	\$	3,748,525	(49,547)	(430,927)	3,736,903

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  
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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, 2009 and 2008, 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 4.711% for the year ended December 31, 2009. The District made contributions of \$12,039 and \$11,510 for the years ended December 31, 2009 and 2008, 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>						
Valuation Date	Accrued Liabilities	Actuarial Assets	PERS Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UL as a & of Payroll
06/30/08	532,483	513,147	19,336	96.4% #	183,388	10.5%
06/30/07	498,935	479,521	19,414	96.1%	171,053	11.3%
06/30/06	478,122	454,603	23,519	95.1%	170,458	13.8%
06/30/05	484,351	459,997	24,354	95.0%	174,127	14.0%

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**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, 2009 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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>Operating &amp; Maintenance</b>		
Power	\$ 91,391	87,993
Leased water rights	10,000	-
Labor	157,873	161,779
Engineering	31,797	24,239
Maintenance and repairs	39,243	163,853
Signal service	-	713
Water analysis	21,979	19,765
Outside contractors	108,171	109,301
Truck maintenance and fuel	14,069	14,328
Insurance	65,107	60,371
Safety equipment	613	1,595
Water master	13,000	9,512
Other	11,257	4,442
	<u>\$ 564,500</u>	<u>657,891</u>
 <b>Administrative and General</b>		
Administrative salaries	\$ 123,016	97,493
Office labor	45,399	45,465
Payroll taxes	24,401	23,651
CalPERS retirement	12,039	17,202
Outside services	16,304	21,973
Legal fees	7,825	5,458
Professional dues	4,723	6,739
Board meetings	6,200	5,900
Office expense	22,737	33,621
Telephone	9,371	9,574
Accounting fees	4,800	6,200
Permits and operational fees	4,736	7,989
Information systems	5,990	4,338
Uncollectible accounts	7,018	-
	<u>\$ 294,559</u>	<u>285,603</u>