

KINNELOA IRRIGATION DISTRICT

DECEMBER 31, 2002 AND 2001

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

KINNELOA IRRIGATION DISTRICT

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance sheets	2
Statements of income and changes in retained earnings	3
Statements of cash flows	4
Notes to financial statements	5
SUPPLEMENTARY INFORMATION	
Schedule of expenses	17

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, 2002 and 2001, and the related statements of income and in retained earnings, 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, 2002 and 2001 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 16 for the years ended December 31, 2002 and 2001 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 1, 2003

KINNELOA IRRIGATION DISTRICT

BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>		<u>2002</u>	<u>2001</u>
ASSETS			LIABILITIES AND FUND EQUITY		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and cash equivalents	\$ 30,165	60,551	Current portion lease payable	\$ 5,090	4,240
Temporary investments	521,925	351,446	Accounts payable	14,218	9,240
Receivables:			Accrued payroll and payroll taxes	21,644	18,966
Water, net of allowance of \$988			Customer deposits	11,128	38,419
in 2001 and 2000, respectively	64,730	84,627			
Other receivables	11,314	26,552	Total current liabilities	<u>52,080</u>	<u>70,865</u>
Due from restricted assets		2,832			
Interest receivable	4,015	3,655	CURRENT LIABILITIES PAYABLE FROM		
Total receivables	<u>80,059</u>	<u>117,666</u>	RESTRICTED ASSETS		
Materials and supplies	20,000	20,000	Current portion of bonds payable	40,000	40,000
Prepaid expenses	15,749	16,362	Due to unrestricted assets		2,832
			Accrued bond interest payable	6,400	6,400
Total current assets	<u>667,898</u>	<u>566,025</u>	Total current liabilities payable from		
			restricted assets	<u>46,400</u>	<u>49,232</u>
RESTRICTED ASSETS			LONG-TERM OBLIGATIONS		
Cash and cash equivalents	7,417	38,690	Bonds payable less current portion	40,000	80,000
Temporary investments	360,823	117,562	Obligation under capital lease	2,243	7,616
Assessments receivable	4,635	13,236	Total long-term obligations	<u>42,243</u>	<u>87,616</u>
Total restricted assets	<u>372,875</u>	<u>169,488</u>	Total liabilities	<u>140,723</u>	<u>207,713</u>
UTILITY PLANT, at cost			FUND EQUITY		
Utility plant	3,199,834	2,683,160	Contributed equity	1,203,765	1,203,765
Construction in progress		399,253	Retained earnings	1,687,162	1,295,243
	<u>3,199,834</u>	<u>3,082,413</u>	Total fund equity	<u>2,890,927</u>	<u>2,499,008</u>
Less: Accumulated depreciation	(1,208,957)	(1,111,205)			
Net utility plant	<u>1,990,877</u>	<u>1,971,208</u>	Total liabilities and fund equity	<u>\$ 3,031,650</u>	<u>2,706,721</u>
Total assets	<u>\$ 3,031,650</u>	<u>2,706,721</u>			

KINNELOA IRRIGATION DISTRICT
STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
OPERATING INCOME		
Revenues		
Water sales	\$ 828,318	781,713
Other	<u>10,557</u>	<u>332</u>
Total operating revenues	<u>838,875</u>	<u>782,045</u>
Expenses		
Operating and maintenance	394,545	370,697
Administration and general	237,645	190,548
Depreciation	<u>97,752</u>	<u>75,119</u>
Total operating expenses	<u>729,942</u>	<u>636,364</u>
Net operating income	<u>108,933</u>	<u>145,681</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	16,311	23,283
Bond assessments	29,707	42,452
Interest expense	(9,600)	(12,905)
Other income	250,000	-
Bond administration expenses	<u>(3,432)</u>	<u>(3,329)</u>
Total non-operating income	<u>282,986</u>	<u>49,501</u>
Net income	391,919	195,182
RETAINED EARNINGS, Beginning of year		
	<u>1,295,243</u>	<u>1,100,061</u>
RETAINED EARNINGS, End of year		
	<u>\$ 1,687,162</u>	<u>1,295,243</u>

KINNELOA IRRIGATION DISTRICT
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating income	\$ <u>108,933</u>	<u>145,681</u>
Adjustments to reconcile net operating income to net cash provide by operating activities:		
Depreciation	97,752	75,119
Provision for uncollectible accounts		
Changes in current assets and liabilities:		
Water receivables	19,897	13,213
Other receivables	15,238	(25,536)
Prepaid expenses	613	(1,288)
Accounts payable	4,978	(10,446)
Other current liabilities	2,678	1,188
Total adjustments	<u>141,156</u>	<u>52,250</u>
Net cash flows from operating activities	<u>250,089</u>	<u>197,931</u>
NET CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of utility plant, net	<u>(117,421)</u>	<u>(302,540)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bond assessments received	38,308	41,610
Interest received	15,951	28,624
Principal payments on bonds	(40,000)	(40,000)
Payments on capital lease obligation	(4,523)	(3,471)
Customer deposits	(27,291)	-
Interest paid	(9,600)	(12,905)
Settlement of obligation	250,000	-
Bond administrative expenses	(3,432)	(3,329)
Net cash flows from financing activities	<u>219,413</u>	<u>10,529</u>
Net (decrease) increase in cash	352,081	(94,080)
Cash and cash equivalents, beginning of year	<u>568,249</u>	<u>662,329</u>
Cash and cash equivalents, end of year	<u>\$ <u>920,330</u></u>	<u>568,249</u>
SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS		
Unrestricted cash and temporary investments	\$ 552,090	411,997
Restricted cash and temporary investments	<u>368,240</u>	<u>156,252</u>
Total cash	<u>\$ <u>920,330</u></u>	<u>568,249</u>

KINNELOA IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Note 1 - Description of Entity and Significant Accounting Principles

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, 2002, The Board of Directors were as follows:

<u>Name</u>	<u>Title</u>
Mr. Melvin Matthews	Chairman
Mr. Steven Sorell	Treasurer
Mr. Maurice Pickard	Director
Mr. Robert Brain	Director
Mr. Jay Stock	Secretary

The Improvement District No. 1 was formed to service the bonded debt. Properties within the Improvement District are assessed \$.80 per \$100 of property value.

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.

KINNELOA IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

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.

c. Utility Plant

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

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

d. Restricted Assets and Liabilities

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

e. Uncollectible Accounts

The District's management estimates that accounts receivable are collectible. However, an allowance for uncollectible accounts at December 31, 2002 and 2001 is \$988, respectively. Unpaid water accounts receivable become a lien on the property and must be paid upon the sale of the property.

f. Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include deposits, certificates of deposit and all highly liquid temporary investments with original maturities of three months or less.

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2002 AND 2001g. Materials and Supplies

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

h. Concentration of Credit Risk

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

i. 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.

Note 2 - Net Working Capital

At December 31, 2002 and 2001, net working capital consists of:

	<u>2002</u>	<u>2001</u>
Total current assets	\$667,898	566,025
Less: total current liabilities	<u>348,480</u>	<u>120,097</u>
Net working capital	<u>\$319,418</u>	<u>445,928</u>

Note 3 - Changes to Contributed Capital

Federal and state reimbursements, grants, property owner assessments and developer contributions for the cost of utility plant are recorded as contributed capital upon the acquisition of the related utility plant. No contributions were made during 2002. During the year ended December 31, 2001, contributions to equity were as follows:

	<u>2002</u>
Contributed equity, beginning of year	\$1,072,959
Additions during year	<u>130,806</u>
Contributed equity, end of year	<u>\$1,203,765</u>

KINNELOA IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Note 4 - Cash, Cash Equivalents and Temporary Investments

The District's Investment Policy requires all investments to be made in accordance with Section 53601 of the Government Code of the State of California. The District may invest in the following types of investment:

U.S. Treasury Bills, Notes or Bonds
Negotiable certificates of deposit
Local Agency Investment Fund ("LAIF") of the state of California
Government agency securities

LAIF

LAIF is a special fund of the treasury of the State of California, through which local governments may pool investments. The District may invest up to \$20,000,000 in LAIF. LAIF investments are highly liquid. Deposits may be converted in to cash within twenty-four hours without loss of interest. Fair value is provided by LAIF.

Classification of Deposits and Investments by Credit Risk

Deposits and investments are classified into three categories of credit risk. They are as follows:

Deposits:

- Category 1 - Deposits insured by the Federal Deposit Insurance Corporation ("FDIC"), Federal Savings and Loan Insurance Corporation ("FSLIC"), a state depository insurance fund or a multiple financial institution collateral pool, or deposits collateralized with securities held by the District or the District's agent in the District's name.
- Category 2 - Deposits collateralized with securities held by the pledging financial institution's trust department in the District's name.
- Category 3 - Deposits uncollateralized, or collateralized but the pledged securities are not held in the District's name.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Investments:

Category 1 - Investments insured by the Securities Investor Protection Corporation, or where the securities are held by the District or the District's agent in the District's name.

Category 2 - Investments uninsured where the securities are held by the purchasing financial institution's trust department or agent in the District's name.

Category 3 - Investments uninsured, where the securities are held by the purchasing financial institution's trust department or agent, but not in the District's name.

Deposits and temporary investments are categorized as follows at December 31, 2002 and 2001:

At December 31, 2002

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balances</u>	<u>Amount</u>
Total deposits	<u>\$98,680</u>	<u>\$-</u>	<u>\$-</u>	<u>\$98,680</u>	<u>\$37,583</u>

	<u>Category</u>			<u>Not Required</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>to be</u>	<u>Value</u>
				<u>Categorized</u>	
Total temporary investments LAIF	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$882,747</u>	<u>\$882,747</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

At December 31, 2001

	Category			Bank Balances	Carrying Amount
	<u>1</u>	<u>2</u>	<u>3</u>		
Total deposits	<u>\$189,869</u>	<u>\$-</u>	<u>\$-</u>	<u>\$189,869</u>	<u>\$99,241</u>

	Category			Not Required to be Categorized	Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>		
Total temporary investments LAIF	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$469,008</u>	<u>\$469,008</u>

Cash on deposit is insured or collateralized. The Government Code of the State of California requires that California banks and savings and loan associations secure a local agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. Financial institutions are required to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits.

The Agency may waive collateral requirements for deposits insured up to \$100,000 by the FDIC or the FSLIC.

The bond agreements require a separate account for the cash collected through tax assessments by the Improvement District No. 1. The District commingles its excess cash into LAIF. Accordingly, restricted assets maintained in LAIF are reflected on the accompanying balance sheet as restricted.

NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2002 AND 2001Note 5 - Utility Plant

At December 31, 2002 and 2001, utility plant consists of:

	<u>2002</u>	<u>2001</u>
Improvement District	\$ 602,778	602,778
Shaw Ranch	280,790	280,790
Dove Creek	487,384	487,384
Land sites	96,700	96,700
Mains	643,969	210,561
Tunnels	347,728	317,152
Eaton well	24,208	24,208
Wilcox production facility	71,313	71,313
Fairpoint street interconnection	14,203	14,203
Water treatment plant	60,630	60,630
Water meters	49,396	49,396
Water company facilities	36,590	36,590
Hidden Canyon office	51,363	51,363
Office equipment	39,748	39,748
Autos and trucks	92,486	92,486
Telemetry	79,739	28,049
Water rights	52,060	52,060
Mountain property	6,620	6,620
Emergency preparedness equipment	<u>161,129</u>	<u>161,129</u>
Total utility plant	3,199,834	2,683,160
Accumulated depreciation	<u>(1,208,957)</u>	<u>(1,111,205)</u>
Net utility plant	1,990,877	1,571,955
Construction in progress	-	<u>399,253</u>
	<u>\$1,990,877</u>	<u>1,971,208</u>

Note 6 - Bonds Payable

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

KINNELOA IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Debt service at December 31, 2002 is as follows:

<u>Year Ending December 31,</u>	<u>Bond Principal Due July 1</u>	<u>Bond Interest Due</u>	<u>Total Debt Service</u>
2003	\$40,000	6,400	46,400
2004	<u>40,000</u>	<u>3,200</u>	<u>43,200</u>
	<u>\$80,000</u>	<u>9,200</u>	<u>89,600</u>

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

Note 7 - Obligation Under Capital Lease

On June 1, 1999, the District entered into a capital lease for a 1999 Ford truck. Payments of \$506.39 are due monthly. The lease provides for a purchase option at termination.

Payments on the obligation are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$5,090	987	6,077
2004	<u>2,243</u>	<u>5</u>	<u>2,243</u>
	<u>\$7,333</u>	<u>995</u>	<u>8,320</u>

Note 8 - 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'

KINNELOA IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

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 50. Annual retirement benefits are determined based upon the age at retirement, the length of membership service and the amount of earnings based upon the highest twelve consecutive months average.

Funding Policy

For the years ended December 31, 2002 and 2001, 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 rate was zero at December 31, 2002 and 2001. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost

Annual pension cost was zero for the years ended December 31, 2002 and 2001. The District made no employer contributions during the years ended December 31, 2002 and 2001. 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 8.25% compounded annually (b) projected annual salary increases that vary by duration of service, and (c) payroll cost-of-living adjustments of 3.75%. The rates used in (a) and (b) are compounded annually at 3.5%. 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.

KINNELOA IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

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

Actuarial Valuation Date	(A) Entry Age Normal Accrued Liability	(B) Actuarial Value of Assets	(A) - (B) Unfunded Liability or (Excess Assets)	(B)/(A) Funded Status	(C) Annual Covered Payroll	[(A) - (B)]/(C) Unfunded Actuarial Accrued Liability as a % of Covered Payroll
6/30/98	\$281,636	\$405,691	\$(124,055)	144.0%	\$125,190	(99.093)%
6/30/99	330,276	450,047	(119,771)	136.3%	129,759	(92.303)%
6/30/00	355,223	493,286	(138,063)	138.9%	135,623	(101.799)%
06/30/01	369,707	504,368	(134,661)	136.4%	144,579	(93.140)%

Note 9 - Joint Venture

Description of the Joint Powers Insurance Authority

The District is a participant in the Association of California Water Agencies Joint Powers Insurance Authority (the "Authority"), formed under a Joint Powers Agreement for the purpose of providing Public Auto and General Liability, Workers' Compensation and Property Insurance. The Authority's Board of Directors is comprised of one representative from each of the participating districts.

Insurance Programs of the Authority - General Liability and Public Auto, Property and Workers' Compensation

The District is required to pay the first \$2,500 per claim for General Liability and Public Auto claims. Claim amounts in excess of \$2,500 and less than \$500,000 per occurrence are paid out of the pooled funds of the Authority. Coverage above the \$500,000 is provided by an excess insurance policy with limits up to \$70,000,000 occurrence arising out of bodily injury, property damage, errors and omissions, or personal injury or any combination thereof, or \$70,000,000 in the aggregate for all occurrences during each coverage year arising out of errors and omissions and/or product hazard. Members are required to pay or are refunded amounts based on actual costs after the end of each period.

The Authority also offers Workers' Compensation coverage. The District pays quarterly based on an estimate of their payroll expense, and then later are refunded amounts based on actual costs. Claim amounts up to \$250,000 per occurrence per employee are paid out of the pooled funds of the Authority.

KINNELOA IRRIGATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

For the years ended December 31, 2002 and 2001, the District incurred Authority insurance expense of \$25,893 and \$18,111, respectively. The Authority's financial statements indicate that the rising cost of claims may significantly increase the cost of coverage to member districts.

Condensed Financial Information of the Authority

The condensed balance sheets, audited by other accountants, of the Authority as of September 30, 2001 and 2000 are as follows:

	<u>In Thousands, 000's omitted</u>	
	<u>2001</u>	<u>2000</u>
Assets	<u>\$52,197</u>	<u>\$47,509</u>
Liabilities	34,826	32,110
Fund equity, designated for catastrophic losses	<u>17,371</u>	<u>15,399</u>
Total liabilities and fund equity	<u>\$52,197</u>	<u>\$47,509</u>

The condensed statements of revenues, expenditures, and changes in fund equity, audited by other accountants, of the Authority for the years ended September 30, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Revenues	\$18,051	15,404
Expenditures	<u>17,890</u>	<u>16,938</u>
Operating loss, before other income and change in accounting principle	<u>161</u>	<u>(1,533)</u>
Other income and change in accounting principle	<u>-</u>	<u>2,548</u>
Net income	1,812	935
Fund equity, beginning of year	<u>15,399</u>	<u>14,464</u>
Fund equity, end of year	<u>\$17,371</u>	<u>15,399</u>

The Authority has no long-term debt. The Authority can be contacted for additional information at their offices located at 5620 Birdcage Street, Suite 200, Citrus Heights, CA 95610 and their phone number is 800-231-5742.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Note 10 - Agreement for Construction of Water System Improvement

In connection with an agreement to construct and maintain a portion of the water system, a developer paid \$250,000 as security for the maintenance of the water quality at the District's Eucalyptus Tunnel. During the year ended December 31, 2002, the developer was released from the obligation to maintain the water quality in exchange for the amount deposited. The District recognized this amount as other income in the accompanying statement of income.

SUPPLEMENTARY INFORMATION

KINNELOA IRRIGATION DISTRICT

SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Operating & Maintenance		
Power	\$ 111,062	111,676
Emergency water	4,054	
Labor	129,587	125,045
Engineering	7,506	(30,934)
Maintenance supplies	23,120	39,025
Signal service	4,618	4,998
Water analysis	14,389	19,298
Outside contractors	30,679	47,577
Truck maintenance	11,690	17,937
Equipment rental	1,606	577
Insurance	46,311	35,498
Safety equipment	5,540	
other	4,383	
	<u>394,545</u>	<u>370,697</u>
	\$	
Administrative and General		
Administrative salaries	\$ 79,249	56,777
Office labor	35,543	30,037
Payroll taxes	19,260	17,325
CalPERS retirement	4,686	3,217
Outside services	24,366	22,564
Legal fees	8,689	8,096
Professional dues	3,972	3,874
Board meetings	685	890
Office expense	38,265	22,755
Telephone	11,677	12,331
Accounting fees	5,800	10,944
Permits and operational fees	4,465	1,738
Uncollectible accounts	988	
	<u>237,645</u>	<u>190,548</u>
	\$	