

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT



For the Years Ended December 31, 2010 and 2009

EGAN & EGAN
Certified Public Accountants

KINNELOA IRRIGATION DISTRICT

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009**

AND INDEPENDENT AUDITORS' REPORT

**KINNELOA IRRIGATION DISTRICT
INDEX TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

	Page
Board of Directors and District Management Personnel	1
Management's Discussion and Analysis	2
Independent Auditors' Report	7
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Assets, For the Years Ended December 31, 2010 and 2009	9
Statements of Cash Flows, For the Years Ended December 31, 2010 and 2009	10
Notes to Financial Statements	12
Supplementary Information	21

KINNELOA IRRIGATION DISTRICT
BOARD OF DIRECTORS AND DISTRICT MANAGEMENT PERSONNEL
DECEMBER 31, 2010 AND 2009

BOARD OF DIRECTORS

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

MANAGEMENT PERSONNEL

Melvin L. Matthews	General Manager
Shirley Burt	Administrative Assistant

KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010 AND 2009

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, 2010. 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 3.4% to \$1,129,630 as compared to 2009 operating revenues of \$1,092,336. The increase is primarily due to a 19.5% increase in the fixed monthly service charge and an 8% increase in the commodity charge effective January 1, 2010, offset by a decrease in retail water sales volume.
- Total operating expenses including depreciation decreased by 2.5% to \$1,073,820 as compared to 2009 operating expenses of \$1,101,065. 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
DECEMBER 31, 2010 AND 2009**

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2010 and 2009.

NET ASSETS

	<u>2010</u>	<u>2009</u>
Capital assets, net	\$3,855,320	\$3,976,147
Other assets, net	1,033,788	866,777
Total assets	<u>4,889,108</u>	<u>4,842,924</u>
Other liabilities	111,457	124,272
Total liabilities	<u>111,457</u>	<u>124,272</u>
Invested in capital assets, net of debt	3,855,320	3,976,147
Unrestricted	<u>922,331</u>	<u>742,505</u>
Total net assets	<u><u>\$4,777,651</u></u>	<u><u>\$4,718,652</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 vehicles in the amount of \$46,171 less current year's depreciation of \$248,626.

Net assets – Unrestricted net assets increased from the prior year due to the current year's excess of revenues over expenses. 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, 2010 AND 2009**

CHANGES IN NET ASSETS

	<u>2010</u>	<u>2009</u>
Total operating revenues	\$ 1,129,630	1,092,336
Total non-operating revenues	<u>6,557</u>	<u>11,683</u>
Total revenues	1,136,187	1,104,019
Total operating expenses	<u>1,073,820</u>	<u>1,101,065</u>
Total non-operating expenses	<u>3,368</u>	<u>4,117</u>
Total expenses	<u>1,077,188</u>	<u>1,105,182</u>
Change in net assets	58,999	(1,163)
Net assets, beginning of year	<u>4,718,652</u>	<u>4,719,815</u>
Net assets, end of year	<u>\$ 4,777,651</u>	<u>4,718,652</u>

Revenues – Retail water sales by volume decreased 13% to 590 acre-feet as compared to 682 acre-feet in 2009. However, total operating revenue increased 3.4% due to a 19.5% increase in the fixed monthly service charge and an 8% increase in the commodity charge plus revenue from wholesale water sales.

The District also received \$6,557 in non-operating revenue from interest on its investments. The District's temporary investments at year end were \$491,316 and \$485,064 in 2010 and 2009, respectively. The increase is attributed to the increase in the net assets of the District and the decrease in expenditures for capital improvement projects as compared to 2009.

Expenses – The District's operating and maintenance expenses decreased by \$9,219 in 2010 as compared to 2009. The decrease is due primarily to less expenditures for maintenance and repair. The District's general and administrative expenses decreased by \$24,749, primarily due to decreases in outside services, legal fees, telephone expense and general office expenses.

BUDGET ANALYSIS AND VARIANCES

Revenue from retail and wholesale water sales for 2010 was \$1,129,630 as compared to the budgeted amount of \$1,133,800. 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. Although revenue from wholesale water sales was not budgeted for 2010 since this source of revenue is considered discretionary and not predictable, the actual revenue allowed the District to meet its overall revenue goal for 2010.

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010 AND 2009**

BUDGET ANALYSIS AND VARIANCES, (continued)

Overall, for 2010, the net revenue surplus before depreciation was \$307,628, as compared to the budgeted amount of \$265,900. Capital and planned maintenance projects in the amount of \$172,186 were completed as compared to the budgeted amount of \$253,481. A portion of the budgeted amount not spent will be carried over to a pipeline project planned for 2011. The cash reserve at year end was \$491,316 as compared with the target level of \$550,000 established by the Board. Each year the District budgets amounts for capital projects and planned maintenance projects based on its expected operations and available reserves. In 2010, the major projects and equipment purchases included: design and specifications for a pipeline project; purchase of a backup generator; purchase of replacement water meters; rebuilding of two booster pumps; and improvements to our data acquisition system.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2010 and 2009, the District had investments in land, buildings, wells and distribution systems, machinery and equipment, and construction in progress as follows.

	<u>2010</u>	<u>2009</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	5,725,081	5,684,435
Machinery and equipment	655,489	587,857
Construction in progress	<u>17,075</u>	<u>-</u>
Totals	<u>\$ 6,546,405</u>	<u>6,421,052</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 1.2% for the 12 months ended December 2010.

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010 AND 2009**

- The general economic picture in 2011 is expected to reflect a continued slow recovery from the recent recession and there might be a continued loss of jobs and possible foreclosures in our service area. However, because water service is a basic necessity, these conditions would only lead to increased emphasis on conservation. This is consistent with our consumer message as we strive to meet an expected 30% reduction in our ground water supply by July 2014 and achieve the "20% by 2020" water-use reduction mandate by the State of California.
- In order to maintain revenues in this period of declining water sales, the Board of Directors voted to increase commodity charges by 7% effective January 1, 2011 and use reserves if necessary to complete budgeted capital and planned maintenance projects for 2011.
- Weather will continue to play a significant role in determining water sales for 2011. If conservation measures continue to be successful and rainfall is normal, we have the option of selling surplus water to sell to the City of Pasadena to 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 also has the flexibility to adjust expenditures for capital improvements and planned maintenance if necessary to meet the overall budget objectives for 2011.

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

EGAN & EGAN
CERTIFIED PUBLIC ACCOUNTANTS
20910 MARTINEZ ST.
WOODLAND HILLS, CALIFORNIA 91364
(877) EGAN 4 US EGANEGAN.COM

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, 2010 and 2009, 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, 2010 and 2009 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, 2010 and 2009 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

April 20, 2011

**KINNELOA IRRIGATION DISTRICT
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash	\$ 366,965	187,740
Temporary investments	241,316	235,064
Temporary investments, restricted as to use	250,000	250,000
Receivables		
Water sales, net of allowance for doubtful accounts of	97,904	118,621
Other receivables	28,872	28,447
Prepaid expenses	28,731	26,905
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	1,033,788	866,777
Capital assets, net of accumulated depreciation	<u>3,855,320</u>	<u>3,976,147</u>
TOTAL ASSETS	<u>\$ 4,889,108</u>	<u>4,842,924</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of lease payable	\$ 17,297	16,513
Accounts payable and accrued expenses	22,894	16,917
Accrued payroll and payroll taxes	10,818	14,350
Customer deposits	<u>23,350</u>	<u>22,097</u>
Total current liabilities	74,359	69,877
Lease obligation, net of current portion	<u>37,098</u>	<u>54,395</u>
Total liabilities	111,457	124,272
Net assets		
Invested in capital assets, net of related debt	3,855,320	3,976,147
Unrestricted	<u>922,331</u>	<u>742,505</u>
Total net assets	<u>4,777,651</u>	<u>4,718,652</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,889,108</u>	<u>4,842,924</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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating revenues		
Water sales and service fees	\$ <u>1,129,630</u>	<u>1,092,336</u>
Operating expenses		
Operating and maintenance	555,381	564,500
Administration and general	269,810	294,559
Depreciation	<u>248,629</u>	<u>242,006</u>
Total operating expenses	<u>1,073,820</u>	<u>1,101,065</u>
Operating income (loss)	<u>55,810</u>	<u>(8,729)</u>
Non-operating revenues (expenses)		
Interest	6,557	11,683
Interest expense	<u>(3,368)</u>	<u>(4,117)</u>
Total non-operating revenue	<u>3,189</u>	<u>7,566</u>
Change in net assets	58,999	(1,163)
Net assets, beginning of year	<u>4,718,652</u>	<u>4,719,815</u>
Net assets, end of year	<u>\$ <u>4,777,651</u></u>	<u><u>4,718,652</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, 2010 AND 2009**

Cash flows from operating activities:	<u>2010</u>	<u>2009</u>
Cash received from customers	\$ 1,149,922	1,076,570
Cash payments to employees for services	(336,504)	(329,588)
Cash payments for services and goods	<u>(488,068)</u>	<u>(527,830)</u>
Net cash provided by operating activities	<u>325,350</u>	<u>219,152</u>
Cash flows from capital and related financing		
Cash paid for construction and acquisition of capital	(127,802)	(481,250)
Principal paid on lease obligation	(16,513)	(15,764)
Customer deposits	<u>1,253</u>	<u>14,899</u>
Cash used by capital and related financing activities	<u>(143,062)</u>	<u>(482,115)</u>
Cash flows from investing activities:		
Interest received	6,557	11,683
Interest paid	<u>(3,368)</u>	<u>(4,117)</u>
Cash provided by investing activities	<u>3,189</u>	<u>7,566</u>
Net increase in cash and cash equivalents	185,477	(255,397)
Cash and temporary investments, beginning of the year	<u>672,804</u>	<u>928,201</u>
Cash and temporary investments, end of the year	<u>\$ 858,281</u>	<u>672,804</u>
SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS		
Cash	\$ 366,965	187,740
Temporary investments	241,316	235,064
Temporary investments, restricted as to use	<u>250,000</u>	<u>250,000</u>
Total cash	<u>\$ 858,281</u>	<u>672,804</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, 2010 AND 2009**

Reconciliation of operating income to net cash	<u>2010</u>	<u>2009</u>
operating activities:		
Operating loss	\$ 55,810	(8,729)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	248,629	242,006
Decrease (increase) in receivables	20,292	(15,766)
Increase in prepaid expenses	(1,826)	(3,450)
Increase in accounts payable and accrued expenses	<u>2,445</u>	<u>5,091</u>
Net cash provided by operating activities	<u>\$ 325,350</u>	<u>219,152</u>

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

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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, 2010, The Board of Directors were as follows:

<u>Name</u>	<u>Title</u>
Steven G. Sorell	Chairman
Richard Barkhurst	Treasurer
Frank J. Griffith	Secretary
Gerrie G. Kilburn	Director
Timothy Eldridge	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
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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) and CalTrust.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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.

Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

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.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

n. Operating Revenues and Expenses

Operating revenues, principally water sales, are charges for services resulting from exchange transactions associated with the principal activity of the District and billed monthly. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues result from nonexchange transactions or ancillary activities in which the District gives or receives value without directly receiving or giving equal value in exchange.

o. Property taxes

The Constitution of the State of California, Article 13A, limits the District's ability to levy taxes on property within the District. Taxes may be imposed upon the vote of a two-thirds vote of the qualified electors of the District. Such taxes would be limited for a specific purpose such as bond indebtedness or improvements to the water system.

p. Subsequent Events

The District has evaluated subsequent events through the date at which the financial statements were available to be issued. No material subsequent events required disclosure.

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, 2010 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.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 2. Cash Deposits and Investments, continued

The District is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's prorata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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.

	2010			Total
	Category			
	1	2	3	
Pooled cash	\$ 236,522	-	-	236,522
Bond fund	-		254,794	254,794
Demand accounts	366,965	-	-	366,965
Total cash and investments	\$ 603,487	-	-	858,281

	2009			Total
	Category			
	1	2	3	
Pooled cash	\$ 485,064	-		485,064
Demand accounts	187,740	-	-	187,740
Total cash and investments	\$ 672,804	-	-	672,804

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 3. Capital Assets

Capital asset activity for the years ended December 31, 2010 and 2009 was as follows:

2010				
	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700			96,700
Water rights	52,060			52,060
Buildings, wells and distribution system	5,684,435	40,646		5,725,081
Machinery and equipment	587,857	70,081		657,938
Construction in progress	-	17,075		17,075
	6,421,052	127,802		6,548,854
Less accumulated	(2,444,905)	(248,629)		(2,693,534)
Total capital assets	\$ 3,976,147	(120,827)		3,855,320

2009				
	Balance January 1	Additions	Transfers	Balance December 31
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)	0
	5,939,802	481,250		6,421,052
Less accumulated	(2,202,899)	(242,006)		(2,444,905)
Total capital assets	\$ 3,736,903	239,244	0	3,976,147

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 4 - Pension Plan

Plan Description

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

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

Funding Policy

For the years ended December 31, 2010 and 2009, participants were required to contribute 7 % of their annual covered salary. 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, 2010. The District made contributions of \$11,083 and \$12,039 for the years ended December 31, 2010 and 2009, 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.

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

Note 4 - Pension Plan, continued

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

<u>Dollars in 1,000; Zeros Omitted</u>						
<u>Valuation Date</u>	<u>Accrued Liabilities</u>	<u>Actuarial Assets</u>	<u>PERS</u>		<u>Annual Covered Payroll</u>	<u>UL as a & of Payroll</u>
			<u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio</u>		
06/30/09	582,842	553,954	28,888	95.0% #	184,320	15.7%
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%

NOTE 5. 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, 2010 regarding these insurance plans.

NOTE 6. 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.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 6 - Net Assets, continued

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 7 - 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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating & Maintenance		
Power	\$ 89,876	91,391
Leased water rights	18,600	10,000
Labor	158,161	157,873
Engineering	16,486	31,797
Maintenance and repairs	60,203	39,243
Water analysis	17,521	21,979
Outside contractors	98,935	108,171
Truck maintenance and fuel	11,726	14,069
Insurance	59,364	65,107
Safety equipment	403	613
Water master	10,701	13,000
Capital improvement fees	6,746	-
Other	6,659	11,257
	<u>\$ 555,381</u>	<u>564,500</u>

Administrative and General		
Administrative salaries	\$ 120,053	123,016
Office labor	45,226	45,399
Payroll taxes	24,651	24,401
CalPERS retirement	11,083	12,039
Outside services	9,839	16,304
Legal fees	3,997	7,825
Professional dues	5,313	4,723
Board meetings	6,000	6,200
Office expense	18,953	22,737
Telephone	6,234	9,371
Accounting fees	6,200	4,800
Permits and operational fees	5,092	4,736
Information systems	7,169	5,990
Uncollectible accounts	-	7,018
	<u>\$ 269,810</u>	<u>294,559</u>