

**KINNELOA IRRIGATION DISTRICT**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2006 AND 2005**

**AND INDEPENDENT AUDITORS' REPORT**

KINNELOA IRRIGATION DISTRICT  
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DECEMBER 31, 2006 AND 2005

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KINNELOA IRRIGATION DISTRICT  
BOARD OF DIRECTORS AND DISTRICT MANAGEMENT PERSONNEL  
DECEMBER 31, 2006 AND 2005

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Richard L. Barkhurst	Chairman	2009
Steven G. Sorell	Treasurer	2007
Frank J. Griffith	Director	2009
Gerrie G. Kilburn	Director	2007
Maurice A. Pickard	Secretary	2007

MANAGEMENT PERSONNEL

Melvin L. Matthews	General Manager
Shirley Burt	Administrative Assistant

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 AND 2005**

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, 2006. 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 33.5% to \$1,139,378 as compared to 2005 operating revenues of \$853,228. The increase is primarily due to wholesale water sales to the City of Pasadena.
- Total operating expenses including depreciation increased by 13.1% to \$992,314 as compared to 2005 operating expenses of \$877,131. The increase is primarily due to expenditures for maintenance and repair projects.

**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 596 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, 2006 AND 2005**

**CONDENSED FINANCIAL INFORMATION**

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2006 and 2005.

**NET ASSETS**

	<u>2006</u>	<u>2005</u>
Capital assets, net	\$3,665,523	\$3,500,535
Other assets, net	827,429	739,452
Total assets	<u>4,492,952</u>	<u>4,239,987</u>
Long-term liabilities	-	-
Other liabilities	173,933	124,112
Total liabilities	<u>173,933</u>	<u>124,112</u>
Invested in capital assets, net of debt	3,665,523	3,500,535
Restricted for debt service	-	-
Unrestricted	<u>653,496</u>	<u>615,340</u>
Total net assets	<u><u>\$4,319,019</u></u>	<u><u>\$4,115,875</u></u>

Capital and other assets – The change in capital assets is net of an increase in capital assets primarily due to capital improvement projects less current year's depreciation.

Net assets – Unrestricted net assets increased from the prior year due to the current year's excess of revenues over expenses. The increase primarily relates to the receipt of flood damage repair grant revenues. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". The District is required to apply the Government Accounting Standards Board (GASB) Statement No. 34. GASB 34 requires, among other things, that the difference between assets and liabilities be reported as net assets, not equity.

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 AND 2005**

CHANGES IN NET ASSETS

	<u>2006</u>	<u>2005</u>
Total operating revenues	\$ 1,139,378	853,228
Total non-operating revenues	<u>56,080</u>	<u>21,017</u>
Total revenues	1,195,458	874,245
Total operating expenses	992,314	877,131
Total non-operating expenses	<u>-</u>	<u>1,249</u>
Total expenses	<u>992,314</u>	<u>878,380</u>
Change in net assets	203,144	(4,135)
Net assets, beginning of year	<u>4,115,875</u>	<u>4,120,010</u>
Net assets, end of year	<u>\$ 4,319,019</u>	<u>4,115,875</u>

Revenues – Retail water usage increased 2% over 2005 to 778 acre-feet or 253 million gallons. Total operating revenue increased 33.5% over 2005 to \$1,139,378. The District also sold 259 acre-feet or 84 million gallons to the City of Pasadena. For 2006, the District also received \$56,089 in non-operating revenue from interest on its investments and from public disaster assistance grants. The amount of the District's temporary investments at year end was \$300,596 and \$444,673 in 2006 and 2005, respectively. The decrease is attributed to the use of funds for capital and planned maintenance projects.

Expenses – The District's operating and maintenance expenses increased by \$85,467. The increase is due primarily to the use of outside contractors to maintain facilities. The District's general and administrative expenses increased by \$15,081, which is a 6.5% increase over 2005 expenses.

BUDGET ANALYSIS AND VARIANCES

Revenues from water sales for 2006 were \$1,139,378 and were higher than the budgeted amount of \$933,168. 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 2006 since this source of revenue is discretionary and not predictable.

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 AND 2005**

BUDGET ANALYSIS AND VARIANCES (continued)

Overall, for 2006, the net revenue surplus before depreciation was \$100,548, as compared to the budgeted amount of \$51,832 which is a favorable result as compared to budget. This result is due primarily to unbudgeted wholesale water sales. Capital and planned maintenance projects in the amount of \$333,111 were completed which is very close to the budgeted amount of \$334,100. The cash reserves at year end were \$550,596 as compared with the budgeted amount of \$550,000.

Each year the District budgets amounts for capital projects and planned maintenance based on its expected operations and available reserves. In 2006, the majority of the budgeted amount of \$334,100 was spent on four major projects: (1) Refurbishment of the High/Low Pressure and House Tunnel lines, (2) Maintenance agreement on the District's five steel tanks, (3) Installation of continuous chlorine residual analyzers (4) Installation of automated tank and reservoir valves.

The first project was the installation of new flexible hose and anchor blocks to support the hose suspension cables which had been damaged in the winter storms of 2005. This project was partially funded by the Federal Emergency Management Agency (FEMA) and the California Office of Emergency Services (OES). The second project is a continuation of periodic maintenance under an agreement with a tank maintenance company to do repairs as needed to extend the lifetime of the tanks for many decades into the future. The third project, which will continue in 2007, provides continuous measurement of chlorine residuals at all water production sites. The fourth project, which will also continue in 2007, provides automated control of tank and reservoir levels in the event of an earthquake or other major disaster.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2006 and 2005, the District had investments in land, buildings, wells and distribution systems, machinery and equipment, and construction in progress as follows).

	<u>2006</u>	<u>2005</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	4,738,850	4,539,617
Machinery and equipment	443,246	407,335
Construction in progress	<u>101,679</u>	<u>-</u>
Totals	<u>\$ 5,432,535</u>	<u>5,095,712</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 4.3% for the 12 months ended December 2006.

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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- The District expects to serve an additional four new or remodeled homes in 2007. The Board of Directors approved a \$0.12 per CCF rate increase effective with the February billing for water used in January 2007, which is expected to increase monthly water bills by between \$3.00 and \$32.00 depending on usage. The Board of Directors also approved a \$2.00 increase in the monthly service charge. The increase was approved in order to ensure that the District would be able to meet operating expenses and fund capital improvement projects identified in the District's Master Plan.

These factors when combined are anticipated to have a positive effect on the District's operations through increased water sales. However, possible increased power costs and other expenses would moderate the benefit to the District. Weather conditions will continue to play a significant role in determining water sales for 2007.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our purveyors, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the District's finance office at 1999 Kinclair Dr., Pasadena, CA 91107



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INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Kinneloa Irrigation District  
Pasadena, California

We have audited the accompanying balance sheets of Kinneloa Irrigation District (the "District") as of December 31, 2006 and 2005, 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, 2006 and 2005 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, 2006 and 2005 is presented for purposes of additional analysis and is not required as part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



February 10, 2007

**KINNELOA IRRIGATION DISTRICT  
BALANCE SHEETS  
DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 22,948	92,503
Temporary investments	300,596	444,673
Temporary investments, restricted as to use	292,418	73,785
Receivables		
Water sales, net of allowance for doubtful accounts of	171,824	83,516
Other receivables	2,768	7,551
Prepaid expenses	16,875	17,424
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	827,429	739,452
<b>Capital assets, net of accumulated depreciation</b>	<u>3,665,523</u>	<u>3,500,535</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,492,952</u>	<u>4,239,987</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 105,660	6,089
Accrued payroll and payroll taxes	13,482	37,890
Customer deposits	12,373	6,348
Deferred income	<u>42,418</u>	<u>73,785</u>
Total current liabilities	173,933	124,112
<b>Net assets</b>		
Invested in capital assets, net of related debt	3,665,523	3,500,535
Restricted for debt service	-	-
Unrestricted	<u>653,496</u>	<u>615,340</u>
Total net assets	<u>4,319,019</u>	<u>4,115,875</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,492,952</u>	<u>4,239,987</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, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating revenues		
Water sales and service fees	\$ <u>1,139,378</u>	<u>853,228</u>
Operating expenses		
Operating and maintenance	575,339	489,872
Administration and general	245,140	230,059
Depreciation	<u>171,835</u>	<u>157,200</u>
Total operating expenses	<u>992,314</u>	<u>877,131</u>
Operating (loss) income	<u>147,064</u>	<u>(23,903)</u>
Non-operating revenues (expenses)		
Interest	24,713	9,524
Grant income	31,367	11,493
Bond administration expenses	<u>-</u>	<u>(1,249)</u>
Total non-operating revenue	<u>56,080</u>	<u>19,768</u>
Change in net assets	203,144	(4,135)
Net assets, beginning of year	<u>4,115,875</u>	<u>4,120,010</u>
Net assets, end of year	<u>\$ <u>4,319,019</u></u>	<u><u>4,115,875</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, 2006 AND 2005**

<b>Cash flows from operating activities:</b>	<u><b>2006</b></u>	<u><b>2005</b></u>
Cash received from customers	\$ 1,055,853	838,092
Cash payments to employees for services	(326,946)	(282,198)
Cash payments for services and goods	<u>(411,796)</u>	<u>(437,383)</u>
Net cash provided by operating activities	<u>317,111</u>	<u>118,511</u>
 <b>Cash flows from capital and related financing</b>		
Cash paid for construction and acquisition of capital	(342,848)	(48,034)
Customer deposits	6,025	(700)
Bond administrative expenses	-	(1,249)
Grant income	<u>          </u>	<u>85,278</u>
Cash used by capital and related financing activities	<u>(336,823)</u>	<u>35,295</u>
 <b>Cash flows from investing activities:</b>		
Interest received	<u>24,713</u>	<u>9,524</u>
Cash provided by investing activities	<u>24,713</u>	<u>9,524</u>
Net decrease in cash and cash equivalents	5,001	163,330
Cash and temporary investments, beginning of the year	<u>610,961</u>	<u>447,631</u>
Cash and temporary investments, end of the year	<u>\$ 615,962</u>	<u>610,961</u>
 <b>SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS</b>		
Cash	\$ 22,948	92,503
Temporary investments	300,596	444,673
Temporary investments, restricted as to use	<u>292,418</u>	<u>73,785</u>
Total cash	<u>\$ 615,962</u>	<u>610,961</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, 2006 AND 2005**

<b>Reconciliation of operating income to net cash operating activities:</b>	<u><b>2006</b></u>	<u><b>2005</b></u>
Operating income (loss)	\$ 147,064	(23,903)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	171,835	157,200
(Increase) decrease in receivables	(83,525)	(15,136)
Decrease in prepaid expenses	549	3,851
Decrease in accounts payable and accrued expenses	<u>81,188</u>	<u>(3,501)</u>
Net cash provided by operating activities	<u>\$ 317,111</u>	<u>118,511</u>

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

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**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, 2006, The Board of Directors were as follows:

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

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental enterprise funds. The District applies Governmental Accounting Standards Board ("GASB") pronouncements and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The more significant policies reflected in the financial statements are summarized as follows:

a. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, retained earnings, revenues and expenses. The District has one fund, which is presented in the accompanying financial statement as a Proprietary Fund category, Enterprise Fund type.

b. Basis of Accounting

The District uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred. Unbilled receivables are not reflected in the accompanying financial statements because the amounts are not material.

The District is required to apply the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" (GASB 34) for periods beginning after June 15, 2003. GASB 34 requires,

**KINNELOA IRRIGATION DISTRICT  
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among other things, that the difference between assets and liabilities be reported as net assets, not equity; that a Management's Discussion and Analysis (MD & A) section precede the basic financial statements; that the statements of cash flows use the direct method, and that plant assets be capitalized and depreciated over their useful lives. As the District has historically capitalized its assets and recorded depreciation, the only significant changes made in order to comply with the new requirements were the MD & A section and the reporting of the details of net assets.

In conjunction with the adoption of GASB 34, the District has also adopted the provisions of GASB No 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus", and GASB No. 38, "Certain Financial Statement Note Disclosures."

c. Utility Plant

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

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

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

e. Uncollectible Accounts

The District's management estimates that accounts receivable are collectible. Unpaid water accounts receivable become a lien on the property and must be paid upon the sale of the property.

f. Cash and Cash Equivalents

The District defines cash and cash equivalents as demand account balances and cash on hand.

The District invests cash in excess of its operating requirements primarily with the State Treasurer's Local Agency Investment Fund (LAIF).

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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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

It is the District's policy to permit employees to accumulated paid time off for either vacation or illness in accordance with the terms expressed in its employee handbook. Upon termination, retirement or death of an employee, the District pays eligible accrued time in a lump-sum payment



**KINNELOA IRRIGATION DISTRICT  
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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. The District has contracted with an investment advisor and given him authorization to make trades on the District's behalf, following the above guidelines. Currently, a majority of the District's cash deposits and investments are held at a single financial institution.

The District's cash deposits at December 31, 2006 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.

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

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

	2005			
	Category			Total
	1	2	3	
Pooled cash	\$ 444,673			444,673
Interest bearing				
Demand accounts	166,288	-		166,288
US Treasury securities				
Federal agency securities	-	-	-	-
Total cash and investments	\$ 610,961	-	-	610,961

NOTE 3. Capital Assets

Capital asset activity for the years ended December 31, 2006 and 2005 was as follows:

	2006			
	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700	-	-	96,700
Water rights	52,060	-	-	52,060
Buildings, wells and distribution system	4,539,617	199,233	-	4,738,850
Machinery and equipment	407,335	35,911	-	443,246
Construction in progress	-	101,679	-	101,679
	5,095,712	336,823	-	5,432,535
Less accumulated	(1,595,177)	(171,835)	-	(1,767,012)
Total capital assets	\$ 3,500,535	164,988	-	3,665,523

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

2005				
	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700	-	-	96,700
Water rights	52,060	-	-	52,060
Buildings, wells and distribution system	4,490,883	48,734	-	4,539,617
Machinery and equipment	407,335	-	-	407,335
Construction in progress	-	-	-	-
	5,046,978	48,734	-	5,095,712
Less accumulated	(1,437,977)	(157,200)	-	(1,595,177)
Total capital assets	\$ 3,609,001	205,934	-	3,500,535

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. Temporary investments include the unexpended portion of the grant funds. Unused funds must be returned to the grantor. The District received \$89,788 in grant funds in 2005 and is expected to receive additional grant funds for the projects completed in 2006. 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

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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, 2006 and 2005, participants were required to contribute 7 % of their annual covered salary. For an exempt employee, the District contributed the amount as an employee benefit. The District is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost

Annual pension cost was 5.273% for the six months ended June 30, 2006 and 5.133% for the six months ended December 31, 2006. The District made contributions of \$16,629, and \$11,067 for the years ended December 31, 2006 and 2005, 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%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a specific period that depends upon the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of projected payroll over a closed 20-year period. The District does not have an unfunded liability.

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

Dollars in 1,000; Zeros Omitted

<u>Valuation Date</u>	<u>Accrued Liabilities</u>	<u>Actuarial Assets</u>	<u>PERS Unfunded Liabilities (UL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL as a % of Payroll</u>
06/30/05	484,351	459,997	24,354	95.0%	174,127	14.0%
06/30/04	437,494	428,025	9,469	97.8%	159,135	6.0%
06/30/03	430,372	429,814	557	99.9%	159,239	40.0%

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**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, 2006 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, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>Operating &amp; Maintenance</b>		
Power	\$ 105,330	56,499
Emergency water	-	30,000
Labor	145,933	170,998
Engineering	22,142	10,215
Maintenance and repairs	108,895	21,632
Signal service	799	718
Water analysis	21,537	16,814
Outside contractors	69,075	90,516
Truck maintenance	10,471	10,811
Insurance	70,611	67,867
Safety equipment	2,155	1,249
Other	18,391	12,553
	<u>\$ 575,339</u>	<u>489,872</u>

<b>Administrative and General</b>		
Administrative salaries	\$ 82,162	77,718
Office labor	43,317	41,232
Payroll taxes	22,932	22,052
CalPERS retirement	16,629	11,067
Outside services	17,213	10,885
Legal fees	6,193	6,833
Professional dues	2,621	4,327
Board meetings	5,300	6,000
Office expense	23,104	21,841
Telephone	10,750	11,484
Accounting fees	6,000	5,900
Permits and operational fees	1,035	2,520
Information systems	7,884	8,200
	<u>\$ 245,140</u>	<u>230,059</u>