

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**



For the Years Ended December 31, 2011 and 2010

EGAN & EGAN
Certified Public Accountants

KINNELOA IRRIGATION DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

AND INDEPENDENT AUDITORS' REPORT

KINNELOA IRRIGATION DISTRICT
INDEX TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

	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, 2011 and 2010	9
Statements of Cash Flows, For the Years Ended December 31, 2011 and 2010	10
Notes to Financial Statements	12
Supplementary Information	20

KINNELOA IRRIGATION DISTRICT
BOARD OF DIRECTORS AND DISTRICT MANAGEMENT PERSONNEL
DECEMBER 31, 2011 AND 2010

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Steven G. Sorell	Chairman	2015
Richard L. Barkhurst	Treasurer	2013
Frank J. Griffith	Secretary	2013
Gerrie G. Kilburn	Director	2015
Timothy Eldridge	Director	2015

MANAGEMENT PERSONNEL

Melvin L. Matthews	General Manager
Shirley Burt	Administrative Assistant

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

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, 2011. 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 14.6% to \$1,294,047 as compared to 2010 operating revenues of \$1,129,630. The increase is primarily due to wholesale water sales to the City of Pasadena.
- Total operating expenses including depreciation increased by 6.4% to \$1,142,414 as compared to 2010 operating expenses of \$1,073,820. The increase is primarily due to higher expenses for maintenance labor and the maintenance contractors who do leak repair and other projects for the District.

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, 2011 AND 2010

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2011 and 2010.

NET ASSETS

	<u>2011</u>	<u>2010</u>
Capital assets, net	\$4,434,303	\$3,855,320
Other assets, net	567,695	1,033,788
Total assets	<u>5,001,998</u>	<u>4,889,108</u>
Other liabilities	71,157	111,457
Total liabilities	<u>71,157</u>	<u>111,457</u>
Invested in capital assets, net of debt	4,434,303	3,855,320
Unrestricted	<u>496,538</u>	<u>922,331</u>
Total net assets	<u><u>\$4,930,841</u></u>	<u><u>\$4,777,651</u></u>

Capital and other assets – The change in capital and other assets is net of an increase in capital assets primarily due to a major capital improvement project located at Sierra Madre Villa Avenue and Windover Road.

Net assets – Unrestricted net assets decreased from the prior year due to the expenditures for the Sierra Madre Villa and Windover Road pipeline replacement project. Part of the decrease was offset with the net operating surplus for 2011. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>
Total operating revenues	\$ 1,294,047	1,129,630
Total non-operating revenues	<u>4,141</u>	<u>6,557</u>
Total revenues	1,298,188	1,136,187
Total operating expenses	<u>1,142,414</u>	<u>1,073,820</u>
Total non-operating expenses	<u>2,584</u>	<u>3,368</u>
Total expenses	<u>1,144,998</u>	<u>1,077,188</u>
Change in net assets	153,190	58,999
Net assets, beginning of year	<u>4,777,651</u>	<u>4,718,652</u>
Net assets, end of year	<u>\$ 4,930,841</u>	<u>4,777,651</u>

Revenues – Retail water sales by volume increased 4% to 615 acre-feet as compared to 590 acre-feet in 2010 and total operating revenue including the revenue from wholesale water sales increased by 14.6%.

The District also received \$4,141 in non-operating revenue from interest on its investments. The District's temporary investments at year end were \$393,292 and \$858,281 in 2011 and 2010, respectively. The decrease is attributed to the greater expenditures for capital improvement projects in 2011 as compared to 2010.

Expenses – The District's operating and maintenance expenses increased by \$34,308 in 2011 as compared to 2010. The increase is due primarily to greater expenditures for maintenance and repair. The District's general and administrative expenses increased by \$12,720, primarily due to increases in outside services, the District's CalPERS contribution, permits and operational fees, telephone and general office expenses.

BUDGET ANALYSIS AND VARIANCES

Revenue from retail and wholesale water sales for 2011 was \$1,294,047 as compared to the budgeted amount of \$1,162,250. 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 2011 since this source of revenue is considered discretionary and not predictable, the actual revenue allowed the District to exceed its overall revenue goal for 2011.

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

BUDGET ANALYSIS AND VARIANCES, (continued)

Overall, for 2011, the net revenue surplus before depreciation was \$409,530, as compared to the budgeted amount of \$262,310. Capital and planned maintenance projects in the amount of \$852,622 were completed as compared to the budgeted amount of \$435,681. A portion of the budgeted amount not spent in 2010 was carried over to the pipeline project completed in 2011. The cash reserve at year end was \$393,292 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 2011, the major projects and equipment purchases included: construction of a pipeline project; purchase and installation of a variable frequency drive motor controller at a well site; purchase of replacement water meters; rebuilding of a booster pump; removal and reinstallation of a well pump; facility maintenance; electrical upgrades at several facilities; and improvements to our data acquisition and control system.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2011 and 2010, the District had investments in land, buildings, wells and distribution systems, machinery and equipment, and construction in progress as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	6,525,057	5,725,081
Machinery and equipment	716,128	655,489
Construction in progress	<u>-</u>	<u>17,075</u>
Totals	<u>\$ 7,389,945</u>	<u>6,546,405</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 2.7% for the 12 months ended December 2011.

KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010

- The general economic picture in 2012 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 rebuild our reserves to the target level, the Board of Directors has approved a budget for 2012 that maintains the net operating surplus at approximately the same level as 2011 and reduces expenditures for capital improvement and maintenance projects. Current rates will be maintained for 2011, but the Board will need to consider rate increases if necessary to complete high-priority capital and planned maintenance projects in the future.
- Weather will continue to play a significant role in determining retail water sales for 2012. Fortunately, we may continue to have the option of selling surplus water to the City of Pasadena to offset any decline in retail sales due to higher than normal rainfall or greater conservation efforts. These factors when combined are anticipated to have a neutral effect on the District's operations in 2012. The District also has the flexibility to adjust expenditures for capital improvements and planned maintenance if necessary to meet the overall budget objectives for 2012.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Kinneloa Irrigation District
Pasadena, California

We have audited the accompanying balance sheets of Kinneloa Irrigation District (the "District") as of December 31, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010 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 17, 2012

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**KINNELOA IRRIGATION DISTRICT
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 143,292	608,281
Cash, restricted as to use	250,000	250,000
Receivables		
Water sales, net of allowance for doubtful accounts	118,887	97,904
Other receivables	13,084	28,872
Prepaid expenses	22,432	28,731
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	567,695	1,033,788
Capital assets, net of accumulated depreciation	<u>4,434,303</u>	<u>3,855,320</u>
TOTAL ASSETS	<u>\$ 5,001,998</u>	<u>4,889,108</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of lease payable	\$ 18,118	17,297
Accounts payable and accrued expenses	17,664	22,894
Accrued payroll and payroll taxes	13,895	10,818
Customer deposits	<u>2,500</u>	<u>23,350</u>
Total current liabilities	52,177	74,359
Lease obligation, net of current portion	<u>18,980</u>	<u>37,098</u>
Total liabilities	71,157	111,457
Net assets		
Invested in capital assets, net of related debt	4,434,303	3,855,320
Unrestricted	<u>496,538</u>	<u>922,331</u>
Total net assets	<u>4,930,841</u>	<u>4,777,651</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,001,998</u>	<u>4,889,108</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating revenues		
Water sales and service fees	\$ <u>1,294,047</u>	<u>1,129,630</u>
Operating expenses		
Operating and maintenance	592,067	555,381
Administration and general	288,239	269,810
Depreciation	<u>262,108</u>	<u>248,629</u>
Total operating expenses	<u>1,142,414</u>	<u>1,073,820</u>
Operating income	<u>151,633</u>	<u>55,810</u>
Non-operating revenues (expenses)		
Interest	4,141	6,557
Interest expense	<u>(2,584)</u>	<u>(3,368)</u>
Total non-operating revenue	<u>1,557</u>	<u>3,189</u>
Change in net assets	153,190	58,999
Net assets, beginning of year	<u>4,777,651</u>	<u>4,718,652</u>
Net assets, end of year	<u>\$ <u>4,930,841</u></u>	<u><u>4,777,651</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, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,288,852	1,149,922
Cash payments to employees for services	(329,895)	(336,504)
Cash payments for services and goods	<u>(546,265)</u>	<u>(488,068)</u>
Net cash provided by operating activities	<u>412,692</u>	<u>325,350</u>
 Cash flows from capital and related financing		
Cash paid for construction and acquisition of capital	(841,091)	(127,802)
Principal paid on lease obligation	(17,297)	(16,513)
Customer deposits	<u>(20,850)</u>	<u>1,253</u>
Cash used by capital and related financing activities	<u>(879,238)</u>	<u>(143,062)</u>
 Cash flows from investing activities:		
Interest received	4,141	6,557
Interest paid	<u>(2,584)</u>	<u>(3,368)</u>
Cash provided by investing activities	<u>1,557</u>	<u>3,189</u>
Net increase in cash and cash equivalents	(464,989)	185,477
Cash and temporary investments, beginning of the year	<u>858,281</u>	<u>672,804</u>
Cash and temporary investments, end of the year	<u>\$ 393,292</u>	<u>858,281</u>
 SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS		
Cash	\$ 143,292	608,281
Temporary investments, restricted as to use	<u>250,000</u>	<u>250,000</u>
Total cash	<u>\$ 393,292</u>	<u>858,281</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, 2011 AND 2010**

Reconciliation of operating income to net cash operating activities:	<u>2011</u>	<u>2010</u>
Operating income	\$ 151,633	55,810
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	262,108	248,629
Decrease (increase) in receivables	(5,195)	20,292
Decrease (increase) in prepaid expenses	6,299	(1,826)
(Decrease) Increase in accounts payable and accrued expenses	<u>(2,153)</u>	<u>2,445</u>
Net cash provided by operating activities	<u>\$ 412,692</u>	<u>325,350</u>

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

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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, 2011, 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 maintains its financial statements using accounting principles for Enterprise Funds.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

The Board of Directors has designated a portion of the District's cash and cash equivalents 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, cash on hand and money market accounts.

The District invests cash in excess of its operating requirements primarily with the State Treasurer's Local Agency Investment Fund (LAIF) and CalTrust, a money market account.

g. 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.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

j. 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 operations..

ii. The Board approves the total budget for the year for the District. 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.

k. 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.

l. 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 limits 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.

m. 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.

n. 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.

o. 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.

KINNELOA IRRIGATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011 AND 2010

NOTE 2. CASH AND CASH EQUIVALENTS

At December 31, 2011 and 2010 cash and cash equivalents consist of:

	<u>2011</u>	<u>2010</u>
Insured with financial institutions	\$ 17,659	366,965
Local Agency Investment Fund ("LAIF")	117,498	236,522
Uninsured and uncollateralized	<u>258,135</u>	<u>254,794</u>
	<u>\$ 393,292</u>	<u>858,281</u>

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The District is a voluntary participant in LAIF, which is regulated by California Government Code 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.

The District invests in CalTrust, a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees, comprised of experienced investment officers and policy-makers of the members, supervises and administers the investment program of the Trust. CalTrust invests in fixed income securities eligible for investment pursuant to California Government Code. Investment in CalTrust accounts are uninsured and uncollateralized.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages its exposure to interest rate risk by participating in LAIF. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not believe a credit risk exists from its deposits with LAIF.

KINNELOA IRRIGATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011 AND 2010

NOTE 3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 was as follows:

2011				
	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700			96,700
Water rights	52,060			52,060
Buildings, wells and distribution system	5,725,081	782,901	17,075	6,525,057
Machinery and equipment	657,939	58,189		716,128
Construction in progress	17,075		17,075	-
	6,548,855	841,090		7,389,945
Less accumulated	(2,444,905)	(510,737)		(2,955,642)
Total capital assets	\$ 4,103,950	330,353		4,434,303

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

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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, 2011 and 2010, 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, 2011. The District made contributions of \$13,076 and \$11,083 for the years ended December 31, 2011 and 2010, 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, 2011 AND 2010

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 Unfunded Liabilities (UL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL as a & of Payroll</u>
03/30/10	624,423	467,904	29,932	74.9% #	186,778 #	16.0%
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%

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, 2011 regarding these insurance plans. The District does not anticipate the need for a reserve for IBNR.

NOTE 6. NET ASSETS

The District is required to present the difference between assets and liabilities 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.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 6. NET ASSETS, continued

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 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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating & Maintenance		
Power	\$ 89,764	89,876
Leased water rights	27,900	18,600
Labor	183,140	158,161
Engineering	13,953	16,486
Maintenance and repairs	31,437	60,203
Water analysis	19,542	17,521
Outside contractors	113,500	98,935
Truck maintenance and fuel	22,771	11,726
Insurance	71,277	59,364
Safety equipment	493	403
Water master	10,567	10,701
Capital improvement fees	(565)	6,746
Other	8,288	6,659
	<u>592,067</u>	<u>555,381</u>
	\$	

Administrative and General		
Administrative salaries	\$ 120,053	120,053
Office labor	45,053	45,226
Payroll taxes	25,994	24,651
CalPERS retirement	13,076	11,083
Outside services	13,583	9,839
Legal fees	3,093	3,997
Professional dues	7,064	5,313
Board meetings	4,800	6,000
Office expense	24,662	18,953
Telephone	9,465	6,234
Accounting fees	6,200	6,200
Permits and operational fees	6,230	5,092
Information systems	8,966	7,169
	<u>288,239</u>	<u>269,810</u>
	\$	