



Annual Report

2007

Presented to the Board of Directors by
Melvin L. Matthews, General Manager

April 15, 2008

Letter from the General Manager

April 15, 2008

On behalf of the staff of the Kinneloa Irrigation District, I am pleased to present the 2007 Annual Report to the Board of Directors.

The primary mission of the Kinneloa Irrigation District is to provide a safe and reliable source of water to our 600 customers. In order to be able to fulfill our mission in the years ahead, the District completed three major capital improvement projects in 2007 as part of our Water System Master Plan as well as continuing preventative maintenance on our buildings, wells, water tunnels, pumps, tanks and reservoirs. The projects are summarized below:

1. The New York Drive Water Main Extension – The principal wells and reservoirs serving the west and east portions of the district were not interconnected at lower elevations until the completion of this missing link between Easton Canyon Drive and the Wilcox Reservoir. The 1,100-foot pipeline provides the ability to move water from one side of the system to the other for operational efficiency as well as to provide increased reservoir storage to the entire system when needed in an emergency.
2. Automated Valves -- We completed the installation of automated valves on our tanks and reservoirs. These valves are controlled by our SCADA (Supervisory Control and Data Acquisition) system as well as by a seismic sensor in the event of an earthquake. This will allow us to preserve water storage while water main leaks are being repaired and provide water for fire fighting after an earthquake or during other emergencies. This new equipment is a vital part of our emergency preparedness plan.
3. Chlorine Residual Analyzers – We completed installation of automated chlorine residual analyzers at our production sources. The seven analyzers are providing a valuable operational benefit and reduce the need for manual testing.

We have captured in pictures many of the capital and planned maintenance projects that were completed in 2007 by the staff and contractors of the Kinneloa Irrigation District. They are attached at the end of this report.

The Financial highlights for the year of 2007 are as follows:

1. The District ended the year in sound financial condition with favorable financial results with respect to the budget.
2. Water sales to our customers totaled \$1,113,356.
3. \$80,285 in additional revenue was obtained by the sale of excess groundwater to the City of Pasadena.
4. The net surplus for the year was \$691,555.
5. Capital and planned maintenance projects in the total amount of \$284,462 were completed.

A financial summary for the calendar year of 2007 is presented in this report. The Production and Sales Report for 2006-2007 was previously presented to the Board in a separate report dated October 24, 2007.

As we look back on the accomplishments of 2007 in this report, we also continue to look forward to our plans for 2008. Although the Kinneloa Irrigation District is the only water company in the San Gabriel Valley that has been self-sufficient using its local groundwater, California's water crisis is of great concern to the District and its customers. We conveyed the following information to our customers to give them a better understanding of the need to conserve water in the years ahead:

1. The water level in the Raymond Basin Aquifer, which is the natural underground water storage basin underlying the greater Pasadena area, has been declining three feet per year on average for the past decade. This is the source for up to 50-75% of our groundwater supply. Our water rights are meaningless if the levels decline below the pumping level of our current wells.
2. Our man-made water tunnels, which collect water percolating down through the San Gabriel Mountains, provide 25-50% of our groundwater supply. The quantity from this source is totally dependent on the long-term average rainfall. Since we are currently in a long-term drought, a single year of above average rainfall has virtually no affect on this source.
3. The availability of imported water is not guaranteed if we ever need to supplement our local supply.
4. The cost a drilling a new well could be \$1 million or more depending on the site and the required depth.
5. Imported water may not be available to replenish the Raymond Basin and stabilize the level.
6. A shortage of imported water would cause our neighboring water agencies to pump their maximum allocated amount rather than leaving the water in the ground for use in drought years. This would affect our pumping operations.
7. A shortage of imported water and/or a continued decline in water levels could lead to a court-ordered reduction or re-allocation of pumping rights in the Raymond Basin.
8. Local shortages or an extended drought might make it necessary for us to purchase imported water on a long-term basis at the going rate. The current cost of imported water is up to ten times more than the cost of our locally-produced water. Water rates would need to be increased to pay for the imported water.

The staff and I appreciate the support of the Board of Directors in meeting the future challenges of providing high quality water service to our customers at a reasonable cost.

Sincerely,



Melvin L. Matthews
General Manager

**Financial Summary for Year Ended
December 31, 2007 and December 31, 2006**

	Year of 2007	Percentage	Year of 2006	Percentage
Revenues				
Water Sales	\$ 1,113,355.64	75.64	1,012,324.17	84.17
Leased Water Sales	2,325.00	0.16	1,860.00	0.15
Wholesale Wtr.-City of Pas.	80,285.34	5.45	106,580.61	8.86
Invoice Sales	14,036.26	0.95	25,836.56	2.15
Interest-General Fund	80.45	0.01	76.96	0.01
Checking				
Interest-General Fund Savings	27,184.66	1.85	18,809.66	1.56
Interest-Bank of America	22.49	0.00	55.96	0.00
Capacity Charge	3,000.00	0.20	0.00	0.00
Disaster Assistance	231,613.00	15.74	37,137.00	3.09
Total Revenues	1,471,902.84	100.00	1,202,680.92	100.00
Expenses				
Power	106,789.88	7.26	105,329.75	8.76
Maintenance Supplies	33,090.48	2.25	40,942.55	3.40
Safety Equipment	703.74	0.05	2,125.82	0.18
Maintenance Labor	156,275.69	10.62	134,982.78	11.22
Stand-by	9,420.00	0.64	10,950.00	0.91
Training/Certification	1,534.55	0.10	2,155.38	0.18
Water Treatment/Analysis	16,749.64	1.14	21,536.69	1.79
Maintenance Contractors	120,563.75	8.19	144,252.40	11.99
Equipment Maintenance	4,277.47	0.29	1,895.20	0.16
Vehicle Maintenance	6,700.90	0.46	8,576.37	0.71
Fuel - All Equipment	8,273.31	0.56	8,898.89	0.74
Insurance-Workers	10,742.00	0.73	15,964.00	1.33
Compensation				
Insurance-Liability	15,430.98	1.05	14,655.63	1.22
Insurance-Property	2,235.00	0.15	3,352.50	0.28
Insurance-Medical	35,075.84	2.38	36,639.16	3.05
Project Engineering	2,937.50	0.20	22,141.70	1.84
Watermaster	5,998.77	0.41	7,366.70	0.61
Telemetry	806.20	0.05	798.94	0.07
Administrative Salary	87,091.92	5.92	82,162.08	6.83
Administrative Travel	4,180.63	0.28	2,299.21	0.19
Administrative PERS	4,944.96	0.34	6,088.76	0.51
BofD Compensation	6,200.00	0.42	5,300.00	0.44
Administrative Exp.	2,865.45	0.19	1,538.57	0.13
BofD-Election	0.00	0.00	8.96	0.00
Customer/Public Info. Prog.	1,728.04	0.12	1,721.65	0.14
PERS - KID	8,293.89	0.56	10,539.94	0.88
Social Security - KID	23,463.62	1.59	22,931.57	1.91
Office Supplies	4,608.68	0.31	9,378.46	0.78
Postage/Delivery	3,299.47	0.22	4,776.57	0.40
Professional Dues	5,951.48	0.40	2,621.58	0.22
Legal	5,199.89	0.35	6,192.87	0.51
Telephone	4,924.11	0.33	6,450.99	0.54
Cellular Telephone	2,113.17	0.14	1,939.83	0.16
Pagers	1,528.57	0.10	1,536.32	0.13
Internet Service	813.93	0.06	823.34	0.07
Computer/Software	5,798.74	0.39	7,883.71	0.66
Maintenance				
Office Equipment Maintenance	1,184.26	0.08	656.53	0.05
Accounting	4,800.00	0.33	6,000.00	0.50
Office Labor	45,043.83	3.06	43,316.50	3.60
Outside Services	16,978.54	1.15	17,213.11	1.43
Permits/Fees	583.96	0.04	1,035.01	0.09
Taxes - Sales	0.00	0.00	784.92	0.07
Bank Service Charges	1,144.94	0.08	1,938.32	0.16
Total Expenses	780,347.78	53.02	827,703.26	68.82
Net Surplus	691,555.06	46.98	374,977.66	31.18

Balance Sheet as of December 31, 2007

ASSETS

Current Assets

Checking-Bank of the West	\$ 4,902.60
Checking-B of A	19,267.00
Checking-Wells Fargo Bank	168,456.83
Savings Account-LAIF	507,781.08
Savings-LAIF Reserve Fund	250,000.00
Accts. Receivable-Water Sales	139,198.52
Accts. Receivable-Invoices	2,298.66
Allowance for Bad Debts	(1,881.57)
Inventory	20,000.05
Prepaid Insurance	11,572.95
Prepaid Expenses	9,670.97

Total Current Assets

1,131,267.09

Property and Equipment

Water Rights	52,060.41
Land Sites	96,700.08
Mains	1,010,177.12
Water Tunnels	705,985.75
K-3 Well	70,233.86
Improvement District #1	602,778.12
Mountain Property	6,620.00
Wilcox Well	71,312.70
Fairpoint St. Interconnect	14,203.27
Water Treatment Plant	158,200.11
Trans. & Dist. Plant Meters	54,732.59
Electrical/Electronic Equip.	177,898.56
Computer/Office Equipment	45,430.51
Trucks and Equipment	92,485.95
Water Company Facilities	36,590.26
Hidden Valley Office	51,362.92
Shaw Ranch	280,789.92
Dove Creek Project	487,383.87
Kinneloa Ridge Project	690,492.58
Eucalyptus Booster Station	471,817.81
Construction in Progress	128,391.75
Vosburg Booster	12,590.00
SCADA	135,075.52
Tanks and Reservoirs	82,569.25
Holly Tanks	181,113.76
Accum. Depreciation	(1,968,472.95)

Total Property and Equipment

3,748,523.72

Total Assets

4,879,790.81

LIABILITIES AND CAPITAL

Current Liabilities

Accounts Payable	\$ 32,458.52
PERS Withholding-Employee	1,163.98
Medical/Dental Employee Withholding	249.96
Deposits-Construction Meters	850.00
Job Deposits	9,189.38
Job Deposits-Doyme Rd.	5,497.68
New York Drive Retention	10,743.00
Accrued Vacation	10,525.70

Total Current Liabilities 70,678.22

Long-Term Liabilities

Total Long-Term Liabilities **0.00**

Total Liabilities 70,678.22

Capital

Fund Balance	4,319,018.53
Net Income	490,094.06

Total Capital **4,809,112.59**

Total Liabilities & Capital **4,879,790.81**

The Year in Pictures

Chlorine Residual Analyzer and Flo-Loc™ Valve at Vosburg Reservoir



Vosburg Delores Tunnel Chlorinator



Vosburg Reservoir Flo-Loc Valve

Pasadena Glen Water Main Repair



Pasadena Glen Water Main Break



Pasadena Glen Water Main Repair Section

New York Drive Water Main Extension Project



Traffic Control



Trench Excavation



Ten Inch Ductile Iron Pipe



Valve for New Fire Hydrant



Trench Ready for Pipe Installation

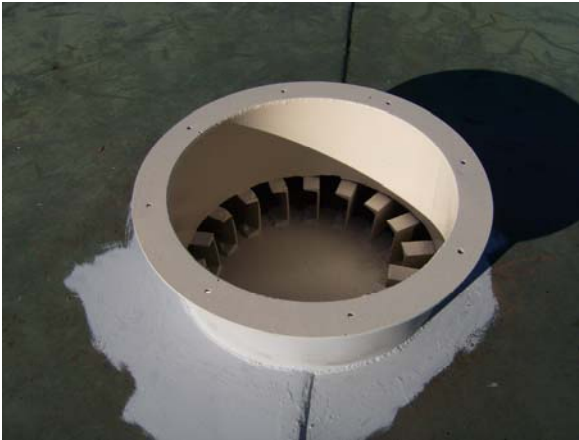


Pipe Delivery to Site

Tank and Reservoir Maintenance Projects



Holly Tanks Painting and Safety Upgrades



Holly Tanks Replacement Roof Vent



Holly Tanks Roof Safety Railings Installed



Refurbished Entry Hatches for Holly Tanks



Wilcox Reservoir Inspection and Cleanout



Diver Support and Cleanout Equipment



Communications Test at West Tank

Special Projects

The Kinneloa Irrigation District periodically evaluates special projects that would provide additional revenue to support our capital improvement projects and operational expenses. For example, we started to explore projects that would use space at our facilities for wireless communications equipment. Although negotiations did not produce a mutually-agreeable contract in 2007, the District will continue to pursue similar opportunities in the future that have the potential to produce additional revenue from sources other than from water sales.



West Tank As Seen From Kinclair Drive



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