

**KIRKWOOD MEADOWS  
PUBLIC UTILITY DISTRICT**

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**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
for the year ended June 30, 2011**

**ROBERT W. JOHNSON**  
Certified Public Accountant

## TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Net Assets and Governmental Fund Balance Sheet	3
Statement of Activities and Changes in Net Assets	4
Statements of Cash Flows – Enterprise Fund	5-6
Statement of Activities and Governmental Fund Revenues, Expenditures and Change in Fund Balances	7
Statements of Revenues and Expenditures – Budget and Actual:	
Fire Department	8-9
Parks Fund	10
Mosquito Abatement Fund	11
Notes to Financial Statements	12-29
Supplemental Information:	
Schedule of Detailed Statement of Activities and Changes in Net Assets	31-32
Principal Officials	33

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Kirkwood Meadows  
Public Utility District  
Kirkwood, California

We have audited the accompanying financial statements of the enterprise activities and the governmental activities of Kirkwood Meadows Public Utility District (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise activities and the governmental activities of Kirkwood Meadows Public Utility District as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by the Government Auditing Standards Board. Management has elected to omit the Management's Discussion and Analysis.

The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kirkwood Meadows Public Utility District. Such 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.

*Robert W. Johnson, An Accountancy Corporation*

Citrus Heights, California  
November 14, 2011

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET  
June 30, 2011

ASSETS	Governmental Fund		Statement of Net Assets	Enterprise Fund	Total
	General Fund	Adjustments		-	
Current assets:					
Cash (Note 3)	\$ -	\$ -	\$ -	\$ 1,033,807	\$ 1,033,807
LAIF	-	-	-	37,051	37,051
Accounts receivable, principally utility bills	-	-	-	132,075	132,075
Interest receivable	-	-	-	-	-
Inventory - materials	-	-	-	48,484	48,484
Prepaid expenses	-	-	-	46,201	46,201
Total current assets	-	-	-	1,297,618	1,297,618
Interfund receivable	-	-	-	47,525	47,525
Restricted (Note 6)	-	-	-	437,804	437,804
Other assets:					
Prepaid loan costs, net of \$37,109 accumulated amortization	-	-	-	408,196	408,196
Noncurrent assets:					
Restricted cash and cash equivalents (Note 6)	127,550	-	127,550	20,211,304	20,338,854
Capital assets (Notes 4, 5 and 7)	-	759,750	759,750	20,333,250	21,093,000
Less accumulated depreciation	-	( 412,866)	( 412,866)	( 7,542,113)	( 7,954,979)
Work in progress	-	-	-	10,160,687	10,160,687
	127,550	346,884	474,434	43,163,128	43,637,562
	\$ 127,550	\$ 346,884	\$ 474,434	\$45,354,271	\$45,828,705

See notes to financial statements

LIABILITIES	Governmental Fund		Statement of Net Assets	Enterprise Fund	Total
	General Fund	Adjustments			
Current liabilities:					
Current portion of long-term debt (Note 7)	\$ -	\$ -	\$ -	\$ 7,221,360	\$ 7,221,360
Accounts payable and accrued liabilities	-	-	-	230,308	230,308
Developer deposits	-	-	-	22,819	22,819
Customer deposits	-	-	-	11,183	11,183
Compensated absences	-	-	-	30,098	30,098
Total current liabilities	-	-	-	<u>7,515,768</u>	<u>7,515,768</u>
Interfund payable	<u>47,525</u>	-	<u>47,525</u>	-	<u>47,525</u>
Restricted liability	-	-	-	<u>555,008</u>	<u>555,008</u>
Noncurrent liabilities:					
Long-term debt, net (Note 7)	-	-	-	<u>22,581,923</u>	<u>22,581,923</u>
Total liabilities	<u>47,525</u>	-	<u>47,525</u>	<u>30,652,699</u>	<u>30,700,224</u>
Fund balances (Note 13):					
Restricted	-	-	-		
Committed	-	-	-		
Unassigned	<u>80,025</u>	<u>( 80,025)</u>	-		
	<u>80,025</u>	<u>( 80,025)</u>	-		
	<u>\$ 127,550</u>				
Net assets (Note 12):					
Investment in capital assets, net of related debt		346,884	346,884	13,359,845	13,706,729
Unrestricted		<u>80,025</u>	<u>80,025</u>	<u>1,341,727</u>	<u>1,421,752</u>
		<u>426,909</u>	<u>426,909</u>	<u>14,701,572</u>	<u>15,128,481</u>
		<u>\$ 346,884</u>	<u>\$ 474,434</u>	<u>\$45,354,271</u>	<u>\$45,828,705</u>

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
for the year ended June 30, 2011

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Grants and Contributions</u>
Primary government:			
Governmental activities:			
Fire	\$ 243,155	\$ 65,041	\$ 21,194
Parks	12,051	-	-
Mosquito abatement	<u>5,418</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>260,624</u>	<u>65,041</u>	<u>21,194</u>
Business-type activities:			
Water	450,592	310,656	-
Wastewater	1,072,852	683,213	-
Employee housing	97,102	65,720	-
Snow removal	467,385	474,752	-
Solid waste	<u>118,099</u>	<u>121,401</u>	<u>-</u>
Total business-type activities	<u>2,206,030</u>	<u>1,655,742</u>	<u>-</u>
Total primary government	<u>\$2,466,654</u>	<u>\$1,720,783</u>	<u>\$ 21,194</u>

General revenues:  
Property taxes  
Other  
Capital contributions

Total general revenues

Changes in net assets

Net assets – beginning

Net assets – ending

See notes to financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$( 156,920)		\$( 156,920)
( 12,051)		( 12,051)
( 5,418)		( 5,418)
<u>( 174,389)</u>		<u>( 174,389)</u>
-	\$( 139,936)	( 139,936)
-	( 389,639)	( 389,639)
-	( 31,382)	( 31,382)
-	7,367	7,367
<u>-</u>	<u>3,302</u>	<u>3,302</u>
<u>-</u>	<u>( 550,288)</u>	<u>( 550,288)</u>
<u>( 174,389)</u>	<u>( 550,288)</u>	<u>( 724,677)</u>
17,434	807,178	824,612
40,959	1,486	42,445
<u>-</u>	<u>-</u>	<u>-</u>
<u>58,393</u>	<u>808,664</u>	<u>867,057</u>
( 115,996)	258,376	142,380
<u>542,905</u>	<u>14,443,196</u>	<u>14,986,101</u>
<u>\$ 426,909</u>	<u>\$14,701,572</u>	<u>\$15,128,481</u>

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
for the year ended June 30, 2011

Cash flows from operating activities:		
Receipts from customers		\$ 1,647,044
Payments to suppliers		( 881,459)
Payment to employees		<u>( 734,937)</u>
Net cash provided by operating activities		30,648
Cash flows from noncapital financing activities:		
Receipts from property taxes and other nonoperating revenues and expenses		744,003
Cash flows from capital and related financing activities:		
Purchase of capital assets	\$( 7,147,370)	
Prepaid loan costs	( 445,305)	
Capital contributions	-	
Proceeds from long-term debt	27,695,000	
Long-term debt – principal paid	( 168,188)	
– interest paid	<u>( 32,119)</u>	
		19,902,018
Cash flows from investing activities:		
Interest income		<u>1,486</u>
Net increase in cash and cash equivalents		20,678,155
Cash and cash equivalents:		
Beginning of year		<u>604,007</u>
End of year		<u>\$21,282,162</u>

See notes to financial statements

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
STATEMENT OF CASH FLOWS, continued  
ENTERPRISE FUND  
for the year ended June 30, 2011

Reconciliation of operating loss to		
net cash provided by operating activities:		
Operating loss		\$( 454,994)
Adjustment to reconcile operating loss		
to net cash provided to operating activities:		
Depreciation and amortization expense	\$ 619,886	
Changes in operating assets and liabilities:		
Receivables	( 8,592)	
Inventory	( 4,639)	
Prepaid expenses	( 10,148)	
Accounts payable	( 121,765)	
Deposits	710	
Compensated absences	3,514	
Trust payable	99,770	
Interfund receivable	<u>( 93,094)</u>	
Total adjustments		<u>485,642</u>
Net cash provided by		
operating activities		<u>\$ 30,648</u>
Supplementary information:		
Cash paid for interest		<u>\$ 147,759</u>

See notes to financial statements

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL  
FUND REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES  
FIRE, PARKS & MOSQUITO ABATEMENT  
for the year ended June 30, 2011

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Program expenditures/expenses:			
Public protection	\$ 105,774	\$ -	\$ 105,774
Support services	114,811	-	114,811
Services and supplies	16,210	-	16,210
Capital outlay	-	-	-
Depreciation	<u>-</u>	<u>23,832</u>	<u>23,832</u>
Total program expenditures/ expenses	<u>236,795</u>	<u>23,832</u>	<u>260,627</u>
Program revenues:			
Charges for services	-	-	-
Annual assessment	<u>65,041</u>	<u>-</u>	<u>65,041</u>
Total program revenues	<u>65,041</u>	<u>-</u>	<u>65,041</u>
General revenues:			
Fire truck fund	55	-	55
Special events	26,022	-	26,022
Impact fees	2,873	-	2,873
Property taxes	17,434	-	17,434
Other	<u>33,206</u>	<u>-</u>	<u>33,206</u>
Total general revenues	<u>79,590</u>	<u>-</u>	<u>79,590</u>
Excess of revenues over expenditures/ change in net assets	( 92,164)	( 23,832)	( 115,996)
Beginning fund balances/net assets	<u>172,189</u>	<u>370,716</u>	<u>542,905</u>
Ending fund balances/net assets	\$ <u>80,025</u>	\$ <u>346,884</u>	\$ <u>426,909</u>

See notes to financial statements

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
FIRE DEPARTMENT FUND  
for the year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
<b>Revenues:</b>			
Annual assessment	\$ 65,200	\$ 65,041	\$( 159)
Fire truck fund	50	55	5
Contributions	18,000	17,250	( 750)
Special events	18,000	26,022	8,022
Impact fees	800	2,873	2,073
Other	10,950	11,976	1,026
Grants	<u>2,200</u>	<u>3,944</u>	<u>1,744</u>
 Total revenues	 <u>115,200</u>	 <u>127,161</u>	 <u>11,961</u>
 <b>Expenditures:</b>			
Payroll	62,700	41,026	21,674
Employee benefits	71,200	50,924	20,276
Material and supplies	4,100	2,356	1,744
Professional services	7,000	2,867	4,133
Vehicle and travel	4,000	3,134	866
Training and meetings	3,600	1,914	1,686
Fire/accident calls	11,000	7,460	3,540
Fund-raising	11,000	13,289	( 2,289)
Contract services	3,500	-	3,500
Other	-	-	-
Equipment maintenance	11,200	6,347	4,853
Telephone	3,100	3,096	4
Admin. labor	45,000	42,821	2,179
Insurance	13,400	12,355	1,045
Capital expense	12,000	-	12,000
Office supplies	11,900	8,208	3,692
Facility fee	-	-	-
Directors expense	11,000	11,846	( 846)
Utilities	33,600	12,926	20,674
Communications	<u>100</u>	<u>16</u>	<u>84</u>
 Total expenditures	 <u>319,400</u>	 <u>220,585</u>	 <u>98,815</u>

See notes to financial statements

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
FIRE DEPARTMENT FUND, continued  
for the year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Excess of revenues (expenditures) before property tax	\$(204,200)	\$( 93,424)	\$ 110,776
Property tax revenue	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues (expenditures)	<u>\$(204,200)</u>	<u>\$( 93,424)</u>	<u>\$ 110,776</u>

See notes to financial statements

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
PARKS FUND  
for the year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Revenues	\$ <u>15</u>	\$ <u>23</u>	\$ <u>8</u>
Expenditures:			
Material and supplies	4,670	3,895	775
Personnel	7,685	6,628	1,057
Other	-	-	-
Insurance	300	269	31
Capital expense	<u>-</u>	<u>-</u>	<u>-</u>
	<u>12,655</u>	<u>10,792</u>	<u>1,863</u>
Excess of revenues (expenditures) before property tax	( 12,640)	( 10,769)	1,871
Property tax revenue	<u>-</u>	<u>12,029</u>	<u>12,029</u>
Excess of revenues (expenditures)	<u>\$( 12,640)</u>	<u>\$ 1,260</u>	<u>\$ 13,900</u>

See notes to financial statements

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
MOSQUITO ABATEMENT FUND  
for the year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Revenues	\$ <u>15</u>	\$ <u>13</u>	\$( <u>2</u> )
Expenditures:			
Material and supplies	2,895	1,280	1,615
Personnel	4,305	4,138	167
Other	<u>-</u>	<u>-</u>	<u>-</u>
	<u>7,200</u>	<u>5,418</u>	<u>1,782</u>
Excess of revenues (expenditures) before property tax	( <u>7,185</u> )	( <u>5,405</u> )	1,780
Property tax revenue	<u>-</u>	<u>5,405</u>	<u>5,405</u>
Excess of revenues (expenditures)	\$( <u>7,185</u> )	\$ <u>-</u>	\$ <u>7,185</u>

See notes to financial statements

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS

1. Organization:

The Kirkwood Meadows Public Utility District (the "District") was formed by resolution of the Local Agency Formation Commission (LAFCO) of the County of Alpine on May 22, 1984 as a detachment from El Dorado Irrigation District (EID) in the counties of Alpine, Amador and El Dorado. The District's formation was also pursuant to all the provisions of the Public Utility Code, Division 7, Chapter 2 and all applicable state election laws. The District is governed by a Board of Directors which is elected by the residents of the District.

Kirkwood Meadows Public Utility District is currently responsible for the operation of the community's water supply, wastewater collection and treatment facilities, the Volunteer Fire Department, mosquito abatement, solid waste management, park/recreational facilities and snow removal. On July 22, 2011 the District began to provide electricity and propane services.

The District has created KMPUD Public Facilities Corporation, a nonprofit public benefit corporation, for the purpose of financing the acquisition and construction of various public facilities, structures and other public buildings in the District. Although legally separate from the District, the Public Facilities Corporation is reported as if it were a part of the primary government because it shares a common Board of Directors with the District and its sole purpose is to provide financing to the District. The Public Facilities Corporation had no financial transactions in 09-10.

2. Summary of Significant Accounting Policies:

The accounting policies of the Kirkwood Meadows Public Utility District conform to generally accepted accounting principles applicable to enterprise funds. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Enterprise Funds

The Enterprise Fund is used to account for water, wastewater, solid waste management, employee housing and snow removal operations that are financed and operated in a manner similar to private business enterprises. The intent of the District is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Governmental Funds

The governmental fund is used to account for all financial resources of the fire department, parks fund and mosquito abatement fund.

Basis of Accounting

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The District's books and accounts are based upon the Uniform System of Accounts for Public Utilities as prescribed by the Division of Local Government Fiscal Affairs of the State of California. The records are maintained and the accompanying financial statements are presented on the accrual basis of accounting for enterprise funds and on the modified accrual basis for governmental funds.

Operating revenues and expenses, such as water sales along with water expenses, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each part receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses, such as grant funding, investment income and interest expense, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

Depreciation and Amortization

Utility plant and equipment are recorded on the basis of purchase cost. Assets acquired by contribution are recorded at estimated cost or fair market value at the date of acquisition. Internal labor, overhead and related interest are charged to asset construction costs.

Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets.

The issuance costs of the 2011 bond anticipation notes are amortized ratably over the life of the notes.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Statement of Cash Flows

All highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents. The investment in LAIF is considered to be cash.

Property Taxes

The District receives property taxes from Alpine, Amador and El Dorado Counties. Property taxes receivable are recorded in the fiscal year for which the tax is levied based on the assessed value as of September 1 of the preceding fiscal year. They become a lien on the first day of the year they are levied. Secured property tax is levied on September 1 and due in two installments, on November 1 and March 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1, and become delinquent on August 31.

Property tax collected for the current year was \$824,612. The District has a policy to allocate property tax to departments as needed. Property tax was allocated for year ended June 30, 2011 as follows:

Water	\$387,898
Wastewater	387,898
Employee housing	31,382
Snow removal	-
Solidwaste	-
Fire	-
Parks	12,029
Mosquito abatement	<u>5,405</u>
	<u>\$824,612</u>

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as a current liability of the fund that will pay it; and as an offsetting expenditure of the governmental fund or expense of the proprietary fund. Sick pay is not vested; however, any excess over 160 hours is compensated at year-end.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Budget and Budgetary Accounting

The Board of Directors annually adopts an operating budget. The operating budgets are prepared on the accrual basis.

Investments

Investments consist of LAIF (State of California pooled investment fund). Investments are stated at market value. Such investment is within the State statutes and the District's investment policy.

Inventories

Inventories have been valued at the lower of cost (first-in, first-out) or market.

Interest Capitalization

Net interest costs are charged to construction projects during the period of construction.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 may differ from those estimates.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued

3. Cash and Investments:

Investments:

California statutes authorize the District to invest in a variety of credit instruments as provided for in the California Government Code Section 53600, Chapter 4 - Financial Affairs. The Government Code allows investments in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, medium-term corporate notes, mutual funds and the State Treasurer's Local Agency Investment Fund (LAIF). The investment in LAIF.

	<u>Carrying Amount</u>	<u>Market Value</u>
Balance, June 30, 2011, Local Agency Investment Fund	\$ <u>37,051</u>	\$ <u>37,051</u>

Pursuant to Government Accounting Standards Board Statement 3, the investment in LAIF is not classified in categories of credit risk. The District's funds in LAIF are invested in a diversified portfolio (of underlying investments e.g. U.S. Treasury obligations) such that it considers the risk of material loss to be minimal. The funds held in LAIF can be withdrawn on demand.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued

3. Cash and Investments:

Cash:

At year-end the carrying amount of the District's deposits was \$21,810,465 and the bank balance was \$21,824,340.

The bank balances were covered by Federal depository insurance and covered by collateral held in the pledging bank's trust department as mandated by state law.

	Balance, June 30, <u>2011</u>
Petty cash	\$ 225
Checking – general	127,571
– payroll	8,902
Money market accounts (8)	<u>21,673,767</u>
	<u>\$21,810,465</u>

Allocation:

Operating	\$ 1,033,807
Restricted	20,338,854
Trust	<u>437,804</u>
	<u>\$21,810,465</u>

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

4. Capital Assets:

Changes in enterprise capital assets for the year ended June 30, 2011 are as follows:

	<u>Balance</u> <u>6/30/2010</u>	<u>Additions/</u> <u>Transfers</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/2011</u>
Water	\$ 4,414,512	\$ 43,954	\$ -	\$ 4,458,466
Wastewater	13,315,185	60,765	-	13,375,950
Employee housing	1,566,458	-	-	1,566,458
Snow removal	871,008	13,117	-	884,125
Solid waste	24,900	-	-	24,900
Cable	<u>23,351</u>	<u>-</u>	<u>-</u>	<u>23,351</u>
	<u>\$20,215,414</u>	<u>\$ 117,836</u>	<u>\$ -</u>	<u>\$20,333,250</u>

	<u>Balance</u> <u>6/30/2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u> <u>6/30/2011</u>
Work in progress:				
Out-valley project	\$ 2,479,209	\$1,233,391	\$ -	\$ 3,712,600
Power house construction	547,616	5,280,787	-	5,828,403
MU acquisition	71,719	467,520	-	539,239
MU propane	4,724	5,527	-	10,251
MU tie-in	-	42,309	-	42,309
Beautification project	<u>27,885</u>	<u>-</u>	<u>-</u>	<u>27,885</u>
	<u>\$ 3,131,153</u>	<u>\$7,029,534</u>	<u>\$ -</u>	<u>\$10,160,687</u>

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

4. Capital Assets, continued:

Capital assets of proprietary fund include:

	<u>Water</u>	<u>Wastewater</u>	<u>Employee Housing</u>	<u>Snow Removal</u>	<u>Solid Waste</u>	<u>Cable</u>
Intangible plant	\$ 32,801	\$ 63,325	\$ -	\$ -	\$ -	\$ -
Source of supply	476,081	-	-	-	-	-
Transmission and Distribution	2,218,032	-	-	-	-	-
General plant	375,386	598,539	-	-	-	-
Employee housing	-	-	1,566,458	-	-	-
Vehicle maint. shop	600,032	600,032	-	-	-	-
Pumping plant	-	403,919	-	-	-	-
Treatment plant	-	9,507,801	-	-	-	-
Collection system	-	1,446,200	-	-	-	-
Disposal system	-	-	-	-	24,900	-
Community Services Building	756,134	756,134	-	-	-	-
Snow removal	-	-	-	884,125	-	-
Cable	-	-	-	-	-	23,351
	<u>\$4,458,466</u>	<u>\$13,375,950</u>	<u>\$1,566,458</u>	<u>\$ 884,125</u>	<u>\$ 24,900</u>	<u>\$ 23,351</u>

5. Other Capital Assets:

The following is a summary of changes in Governmental capital assets during the year:

	<u>Balance 6-30-10</u>	<u>2010-11 Additions</u>	<u>2010-11 Disposals</u>	<u>Balance 6-30-11</u>
Fire department	\$ 729,916	\$ -	\$ -	\$ 729,916
Parks fund	29,834	-	-	29,834
Mosquito Abatement fund	-	-	-	-
	<u>\$ 759,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 759,750</u>

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

6. Restricted Cash:

Restricted

	<u>Total</u>
Mello Roos	\$ 293,364
Fish Fund	95,117
EID Fish Fund	<u>49,323</u>
	<u>\$ 437,804</u>

Noncurrent

Fire equipment fund	\$ 127,550
Anticipation note funds	<u>20,211,304</u>
	<u>\$20,338,854</u>

**KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued**

**7. Long-term Debt:**

Long-term debt activities for the year ended June 30, 2011 are as follows:

	<u>2010</u>	<u>New Debt Issued</u>	<u>Debt Retired</u>	<u>2011</u>	<u>Current Portion</u>
Employee housing facilities loan	\$ 176,471	\$ -	\$ 68,188	\$ 108,283	\$ 71,360
Vehicle maintenance building loan	600,000	-	100,000	500,000	100,000
Anticipation note	1,500,000	-	-	1,500,000	1,500,000
2010 anticipation notes	-	5,550,000	-	5,550,000	5,550,000
2011 anticipation notes	<u>-</u>	<u>22,145,000</u>	<u>-</u>	<u>22,145,000</u>	<u>-</u>
	<u>\$2,276,471</u>	<u>\$27,695,000</u>	<u>\$ 168,188</u>	<u>\$29,803,283</u>	<u>\$7,221,360</u>

The employee housing facilities loan is payable in semi-annual payments (May 1 and November 1) of \$37,765 through November 1, 2012 including interest of 4.6%. This loan is collateralized by net revenues of the District.

The vehicle maintenance/snow removal equipment building loan is payable in semi-annual payments of principal amount of \$100,000 plus interest (March 31 and September 30) through March 31, 2016 including interest of 4.40%. This loan is collateralized by net revenues of the District.

The anticipation note of \$1,500,000 is to provide funds for costs associated with the proposed acquisition and construction of the electrical and propane system in the Kirkwood area. Interest only payments of 6.75% are due on a semi-annual basis in the amount of \$50,625 (June 1 and December 1) through June 1, 2011 with total principal and interest due on December 1, 2011.

The 2010 bond anticipation notes of \$5,550,000 are to provide funds to finance completing the site work and constructing the foundation and building shell of the new Powerhouse. The notes are due in full July 1, 2011 plus interest at 3%.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

7. Long-term Debt, continued:

The 2011 bond anticipation notes of \$22,145,000 consist of:

<u>Principal</u>		<u>Interest Rate</u>	<u>Due</u>
\$12,120,000	Tax-Exempt Series A	4 ½%	May 1, 2013
6,715,000	Tax-Exempt Series B	4 ½%	May 1, 2013
<u>3,310,000</u>	Taxable Series C	5%	May 1, 2013
 <u>\$22,145,000</u>			

Interest on the Notes is payable commencing November 1, 2011 and on each May 1 and November 1 until paid in full. Principal is payable on May 1, 2013.

The District will use the proceeds of the Series A and Series B Notes to finance and/or reimburse the District for (i) costs and expenses of consultants that have been or will be retained by the District to perform feasibility, engineering, mapping and environmental studies and evaluations associated with the proposed acquisition and improvement of the Kirkwood area electricity and propane assets and services; (ii) related costs and expenses associated with permitting and entitlements; (iii) the redemption of the District's \$1,500,000 2008 Anticipation Notes and \$5,500,000 2010 Anticipation Notes, the redemption of the 2006 Vehicle Maintenance and Storage Facility Loan in the principal sum of \$500,000 plus accrued interest, and the redemption of the 2002 Employee Housing Building Loan in the principal sum of \$148,000 plus accrued interest; (iv) the construction of a new Powerhouse shell and the installation of generators along with related switchgear and equipment; (v) the construction of a new Powerhouse and electrical distribution facilities, including underground circuits, circuit routing switches, vaults and transformers, (vi) the funding of a Capitalized Interest Fund to pay interest on the Notes through maturity; and (vii) payment of Costs of Issuance.

The District will, pursuant to an Asset Purchase Agreement between the District and Mountain Utilities, use the proceeds of the Series C Notes, in part, to finance and/or reimburse the District: (i) for the purchase of the land and the existing assets of Mountain Utilities; (ii) for the acquisition of Mountain Utilities vehicles, tanks, storage containers and miscellaneous parts and tools; (iii) for the funding of a Series C Capitalized Interest Fund; and (iv) for payment of Series C Costs of Issuance.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

7. Long-term Debt, continued:

The obligation of the District to make the Note Payment pursuant to the Trust Agreement is a special limited obligation payable from and secured by a pledge of (i) the proceeds of any obligation of the District incurred to retire the Notes, (ii) all moneys in the Note Payment Fund and in other funds and accounts established pursuant to the Trust Agreement, and (iii) revenues deposited in the Reserve/Rate Stabilization Fund derived from the sale of electricity and propane and from such existing *ad valorem* tax collections that may be transferred by the District, in its sole discretion, to the Reserve/Rate Stabilization Fund and not needed for District operating costs.

The future annual maturities of all long-term borrowings as of June 30, 2011 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7,221,360	\$1,164,742	\$ 8,386,102
2013	22,281,923	1,031,517	23,313,440
2014	100,000	13,200	113,200
2015	100,000	8,800	108,800
2016	<u>100,000</u>	<u>4,400</u>	<u>104,400</u>
	<u>\$29,803,283</u>	<u>\$2,222,659</u>	<u>\$32,025,942</u>

8. Employee Benefit Plans (Unaudited):

The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time District employees are eligible to participate in the System. Benefits fully vest after five years of service. District employees who retire at or after age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2 ½ percent of the average salary during their last year of employment, for each year of credited service up to five years and, and 2 ½ percent for each year over five years. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued

8. Employee Benefit Plans (Unaudited), continued:

District employees' contribution is 8.0 percent of their annual salary to the System. The District pays the employees' contribution. The District is required to contribute the remaining amounts (2011-12 rate will be 16.220%) necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS Actuaries and Actuarial Consultants and adopted by the Board of Administration. For year ended June 30, 2011 the District paid total contributions of \$106,878.

Since the District's plan has less than 100 active members since June 30, 2003, it is required to participate in a risk pool.

A summary of principal assumptions and methods used to determine the contractually required contributions is shown below for the cost-sharing multiple-employer defined benefit plan.

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	19 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

8. Employee Benefit Plans (Unaudited), continued:

Fund Status of Risk Pool

<u>Valuation Date</u>	<u>Accrued Liabilities</u>	<u>Actuarial Assets</u>	<u>Unfunded Liabilities</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL as a % of Payroll</u>
6-30-07	\$1,315,454,361	\$1,149,247,298	\$166,207,063	87.4%	\$289,090,187	57.5%
6-30-08	1,537,909,933	1,337,707,835	200,202,098	87.0%	333,307,600	60.1%
6-30-09	1,834,424,640	1,493,430,831	340,993,809	81.4%	355,150,151	96.0%

Effective January 1, 2002 the Board of Directors established the KMPUD Defined Contribution Plan. The Plan covers the District Manager. Annual contributions are to be at least \$25,000. Vesting increases 10% for each year of credited service. At June 30, 2011 total contributions made to the Plan Trustee were \$250,000.

9. Risk of Loss:

Kirkwood Meadows Public Utility District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2011 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

10. Subsequent Events:

Management has evaluated subsequent events through November 14, 2011, the date these June 30, 2011 financial statements were available to be issued.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

11. Capital Connection Fees:

Revenues from capital connection fees are restricted in that they must be spent for capital expenditures or major improvements.

It is the District's policy to reserve unexpended water and wastewater capital connection fees. However, for the period (inception) through June 30, 2011, capital expenditures exceeded capital connection fees, as follows:

	<u>Water</u>	<u>Wastewater</u>
Accumulated balance (deficit), June 30, 2010	\$( 659,373)	\$( 435,239)
Add, 2010-11 capital connection fees	1,916	2,895
Deduct, 2010-11 capital expenditures	<u>-</u>	<u>-</u>
Accumulated deficit, June 30, 2011	\$( <u>657,457</u> )	\$( <u>432,344</u> )

Accumulated deficits represent the portion of authorized capital expenditures financed by operations.

12. Net Assets (Enterprise Fund):

Net assets at June 30, 2011 consist of:

Invested in capital assets, net of related debt		\$13,359,845
Restricted:		
Reserve for capital improvements		-
Unrestricted:		
Board designated	\$ -	
Undesignated	<u>1,341,727</u>	<u>1,341,727</u>
Total		<u>\$14,701,572</u>

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

13. Equity (Governmental Fund):

General Fund:

Total fund balances consists of:

Restricted for:		\$ -
Committed for:		-
Unassigned:		<u>80,025</u>
		<u>\$ 80,025</u>

Statement of Net Assets:

Total net assets consist of:

Investment in capital assets, net of related debt		\$346,884
Restricted:		-
Unrestricted:		
Board designated:	\$ -	
Undesignated:	<u>80,025</u>	<u>80,025</u>
		<u>\$426,909</u>

14. Community Facilities District:

CFD No. 98-1 is a legally constituted governmental entity established under the Mello-Roos Community Facilities Act of 1982 (the "Act") as amended. The Act provides an alternative method for financing certain public capital facilities and services. CFD No. 98-1 was established through a special election held in May, 1999 whereat the qualified electors approved the Rate and Method of Apportionment of the Special Tax and authorized the issuance of up to \$6,263,552 in bonds.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

14. Community Facilities District, continued:

In October 1999, \$2,450,000 in long-term bonds were issued, the 1999 Series A bonds. A second series of long term bonds in the amount of \$3,813,552 were issued in May 2000, the 2000 Special Tax Bonds, Series B. The bond proceeds provided funds for the acquisition and construction of public sewer treatment plant improvements to serve property located within CFD No. 98-1.

The Bonds are secured and payable from a pledge of the Special Taxes collected by the District levied upon certain real property within the CFD District, from the proceeds of any foreclosure actions brought following a delinquency in the payment of the Special Tax and from amounts held in certain funds pursuant to the Resolution. Neither the faith and credit nor the taxing power of the District, the CFD District, the County, the State of California or any political subdivision of any of the foregoing is pledged to the payment of the Bonds.

The Bonds are not a debt of the District, CFD No. 98-1, the County, the State of California or any of its political subdivisions, and neither the District, CFD No. 98-1, the County, the State nor any of its political subdivisions is liable therefore. Consequently, the District does not include the bond debt, the bond redemption or reserve funds or cash collected from the Special Tax on its financial statements.

15. Electrical Projects:

On December 11, 2008, the Board of Directors adopted Resolution 08-15 declaring the District's intention to acquire the existing propane gas and electric systems and assets from Mountain Utilities, LLC (MU).

This acquisition, known as the In-Valley project, is coupled with a study to determine the costs to bring in an electrical transmission line from Salt Springs, giving Kirkwood the ability to purchase electrical power from a major supplier. This study is known as the Out-Valley project.

On January 1, 2010, a fire destroyed the existing powerhouse and KMR had to undertake emergency steps to power the valley through the use of trailer mounted generators. This fire simplified the MU sale process to a great degree and an Asset Purchase Agreement was signed on April 2, 2010. The purchase price of MU was set at \$3,000,000. In anticipation of this transaction, the District constructed a new diesel generator powerhouse and plans to install new diesel fuel electric generators to supply the electric system.

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued

15. Electrical Projects, continued:

The District has hired engineers, architects, general contractors and various other consultants to complete this In-Valley project. The District has received site plans for the new project and tree removal, initial grading and preliminary drainage work has been completed. The building shell has been constructed, a preliminary roof installed and the majority of the paving completed. The District has entered contracts with PowerSecure for the installation of three Caterpillars (“CATs”) and five Volvo diesel-fired generators and related control systems etc. The electric production capability of the new powerhouse will be 5.0 MW.

The District has completed key development work concerning the Out-Valley interconnection project.

- Conducted initial feasibility studies and review each year beginning in 2006.
- Completed various design, engineering, and environmental evaluations beginning in 2008.
- Filed draft Environmental Impact Statement (“EIS”) for public comment on March 25, 2011.

Although much evaluation and development work has been completed and review of the EIS is underway, the scope, schedule, and cost of the Out-Valley Project remain preliminary. Its final and precise scope will depend on approval of a final EIS and the related permits. Its schedule and costs will be materially affected by that final scope. Subject to that qualification:

- The District would purchase power from suppliers at an interconnection with PG&E, wheel that power to Kirkwood over a newly-constructed, mostly-buried 23-mile transmission line, and maintain some In-Valley generation for reliability purposes. The In-Valley Project now underway is thus a potential bridge to the Out-Valley Project and the back-up element of the Out-Valley Project if it is pursued.
- A preliminary capital cost estimate for the transmission line and two substations totals approximately \$35 million.
- Operating costs would be the sum of the cost of power purchased at the interconnection, operating and maintenance costs for the transmission line, and the costs of maintaining In-Valley back up.
- Once permits are received, construction of the Out-Valley Project could be completed within a one or two year period, depending upon construction start season and crew staffing.

**SUPPLEMENTAL DATA**

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
SCHEDULE OF DETAILED STATEMENT  
OF ACTIVITIES AND CHANGES IN NET ASSETS  
for the year ended June 30, 2011

	Enterprise Funds			
	Water	Wastewater	Employee Housing	Snow Removal
Operating revenues:				
Residential	\$ 176,855	\$ 391,774	\$ -	\$ -
Business	116,813	284,159	-	-
Connection fees	1,916	2,895	-	-
Other	15,072	4,385	-	-
Income - tenants	-	-	65,720	-
Snow removal	-	-	-	474,752
Solid waste rev.	-	-	-	-
Fire department rev.	-	-	-	-
Parks revenue	-	-	-	-
Mosquito abatement rev.	-	-	-	-
	<u>310,656</u>	<u>683,213</u>	<u>65,720</u>	<u>474,752</u>
Total operating revenues				
Operating expenses:				
Pumping	82,995	-	-	-
Water treatment	35,197	-	-	-
Transmission and distribution	95,294	-	-	-
Customer accounts	2,438	3,990	-	-
Administrative and general	78,518	231,979	-	-
Depreciation	131,407	328,103	42,981	74,013
Wastewater treatment	-	456,431	-	-
Collection system	-	14,835	-	-
Disposal	-	-	-	-
Services and supplies	-	-	45,438	374,731
	<u>425,849</u>	<u>1,035,338</u>	<u>88,419</u>	<u>448,744</u>
Total operating expenses				
Operating income (loss)				
(carried forward)	( 115,193)	( 352,125)	( 22,699)	26,008

Governmental Funds

<u>Solid Waste</u>	<u>Combined</u>	<u>Fire Department</u>	<u>Parks</u>	<u>Mosquito Abatement</u>	<u>Combined</u>	<u>Total</u>
\$ -	\$ 568,629	\$ -	\$ -	\$ -	\$ -	\$ 568,629
-	400,972	-	-	-	-	400,972
-	4,811	-	-	-	-	4,811
-	19,457	-	-	-	-	19,457
-	65,720	-	-	-	-	65,720
-	474,752	-	-	-	-	474,752
121,401	121,401	-	-	-	-	121,401
-	-	127,159	-	-	127,159	127,159
-	-	-	22	-	22	22
-	-	-	-	13	13	13
<u>121,401</u>	<u>1,655,742</u>	<u>127,159</u>	<u>22</u>	<u>13</u>	<u>127,194</u>	<u>1,782,936</u>
-	82,995	-	-	-	-	82,995
-	35,197	-	-	-	-	35,197
-	95,294	-	-	-	-	95,294
-	6,428	-	-	-	-	6,428
-	310,497	-	-	-	-	310,497
1,449	577,953	22,572	1,260	-	23,832	601,785
-	456,431	-	-	-	-	456,431
-	14,835	-	-	-	-	14,835
110,937	110,937	-	-	-	-	110,937
-	420,169	208,737	10,338	5,206	224,281	644,450
<u>112,386</u>	<u>2,110,736</u>	<u>231,309</u>	<u>11,598</u>	<u>5,206</u>	<u>248,113</u>	<u>2,358,849</u>
<u>9,015</u>	<u>( 454,994)</u>	<u>( 104,150)</u>	<u>( 11,576)</u>	<u>( 5,193)</u>	<u>( 120,919)</u>	<u>( 575,913)</u>

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
SCHEDULE OF DETAILED STATEMENT  
OF ACTIVITIES AND CHANGES IN NET ASSETS, continued  
for the year ended June 30, 2011

	Enterprise Funds			
	Water	Wastewater	Employee Housing	Snow Removal
Operating income (loss) (brought forward)	\$( 115,193)	\$( 352,125)	\$( 22,699)	\$ 26,008
Non-operating revenues (expenses):				
Interest income	743	743	-	-
Property taxes	387,898	387,898	31,382	-
Cable TV income/(loss), net	( 604)	( 604)	-	-
Directors' expenses	( 11,489)	( 24,260)	( 1,864)	( 18,641)
Interest expense	( 12,650)	( 12,650)	( 6,819)	-
	<u>363,898</u>	<u>351,127</u>	<u>22,699</u>	<u>( 18,641)</u>
Income (loss) before contributions	248,705	( 998)	-	7,367
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ 248,705</u>	<u>\$( 998)</u>	<u>\$ -</u>	<u>\$ 7,367</u>
Net assets - beginning				
Net assets - ending				

Governmental Funds

<u>Solid Waste</u>	<u>Combined</u>	<u>Fire Department</u>	<u>Parks</u>	<u>Mosquito Abatement</u>	<u>Combined</u>	<u>Total</u>
\$ 9,015	\$( 454,994)	\$( 104,150)	\$( 11,576)	\$( 5,193)	\$( 120,919)	\$( 575,913)
-	1,486	-	-	-	-	1,486
-	807,178	-	12,029	5,405	17,434	824,612
-	( 1,208)	-	-	-	-	( 1,208)
( 5,713)	( 61,967)	( 11,846)	( 453)	( 212)	( 12,511)	( 74,478)
<u>-</u>	<u>( 32,119)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 32,119)</u>
( 5,713)	713,370	( 11,846)	11,576	5,193	4,923	718,293
3,302	258,376	( 115,996)	-	-	( 115,996)	142,380
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 3,302</u>	258,376	<u>\$( 115,996)</u>	<u>\$ -</u>	<u>\$ -</u>	( 115,996)	142,380
	<u>14,443,196</u>				<u>542,905</u>	<u>14,986,101</u>
	<u>\$14,701,572</u>				<u>\$ 426,909</u>	<u>\$15,128,481</u>

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT  
PRINCIPAL OFFICIALS

Board of Directors:

Peter Dornbrook	President
Laurence Lacey	Vice President
Leo Smith	Secretary
Eric Richert	Director
Frank Majors	Treasurer

Operations:

Tom Henie	District Manager
Michael Sharp	Assistant District Manager