

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**



**For the Years Ended  
December 31, 2017 and 2016**

**EGAN & EGAN**  
Certified Public Accountants

**KINNELOA IRRIGATION DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2017 AND 2016**

**AND INDEPENDENT AUDITORS' REPORT**

**KINNELOA IRRIGATION DISTRICT  
INDEX TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

	Page
Board of Directors and District Personnel	1
Management's Discussion and Analysis	2
Independent Auditors' Report	7
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position, For the Years Ended December 31, 2017 and 2016	10
Statements of Cash Flows, For the Years Ended December 31, 2017 and 2016	11
Notes to Financial Statements	13
Supplementary Information	24

**KINNELOA IRRIGATION DISTRICT  
BOARD OF DIRECTORS AND DISTRICT PERSONNEL  
DECEMBER 31, 2017 AND 2016**

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Gerrie Kilburn	Chairman	2019
Gordon Johnson	Treasurer	2021
Timothy Eldridge	Secretary	2019
Frank J. Griffith	Director	2021
William Opel	Director	2019

MANAGEMENT PERSONNEL

Melvin L. Matthews      General Manager

OFFICE PERSONNEL

Bernadette Allen      Accounting Assistant

FIELD PERSONNEL

Chris Burt      Facilities Supervisor

Brian Fry      Facilities Operator

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

Management's 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, 2017. Please read it in conjunction with the District's financial statements, which begin on page 9.

**FINANCIAL HIGHLIGHTS**

The District's operating revenues, consisting primarily of water sales, increased by 7.88% to \$1,636,661 as compared to 2016 operating revenues of \$1,517,185. The increase is primarily the result of the rate increase in January 2017.

Total operating, maintenance, administrative and general expenses including depreciation increased by 8.9% to \$1,488,454 as compared to \$1,366,399 in 2016. The net increase is primarily due to higher administrative and general expenses as offset by a decrease in operating and maintenance expenses. A schedule of expenses is presented on page 24.

**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 Position 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 586 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 vertical wells and five horizontal wells. 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.kinneloairrigationdistrict.info>.

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**CONDENSED FINANCIAL INFORMATION**

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2017 and 2016.

	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
Current assets	\$ 1,941,999	1,894,421
Capital assets, net	5,889,007	5,788,411
Deferred outflows of resources	21,181	30,295
Total assets and deferred outflows of resources	<u>\$ 7,852,187</u>	<u>7,713,127</u>
<b>LIABILITIES AND DEFERRED INFLOWS</b>		
Current liabilities	\$ 169,414	162,036
Noncurrent liabilities	2,200,456	2,171,244
Deferred inflows of resources	83,822	53,567
Total liabilities and deferred inflows of resources	<u>2,453,692</u>	<u>2,386,847</u>
<b>NET POSITION</b>		
Investment in capital assets	5,889,007	5,788,411
Unrestricted	(490,512)	(462,131)
Total net position	<u>5,398,495</u>	<u>5,326,280</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,852,187</u>	<u>7,713,127</u>

Capital and other assets – The change in capital and other assets is net of an increase in capital and other assets less current year's depreciation of \$347,568.

Net position – The net position increased from the prior year due to the current year's excess of revenues over expenses. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>
Total operating revenues	\$ 1,636,661	1,517,185
Total non-operating revenues	<u>16,953</u>	<u>24,005</u>
Total revenues	1,653,614	1,541,190
Total operating expenses	1,412,538	1,286,176
Total non-operating expenses	<u>75,916</u>	<u>80,223</u>
Total expenses	<u>1,488,454</u>	<u>1,366,399</u>
Change in net position	165,160	174,791
Net position, beginning of year	<u>5,326,280</u>	<u>5,151,499</u>
Net position, end of year	<u>\$ 5,491,440</u>	<u>5,326,290</u>

Revenues – Retail water sales by volume increased to 594 acre-feet as compared to 555 acre-feet in 2016 and the total operating revenue increased to \$1,636,661 from \$1,517,185 due to an increase of rates in January 2017 and the increased water sales.

The District also received \$16,953 in non-operating revenue from interest on its temporary investments and the sale of an asset. The District's temporary investments at year end were \$1,667,327 and \$1,703,367 in 2017 and 2016, respectively. The District has identified \$3,947,000 in future projects in its Water System Master Plan. The temporary investments will be used for some of these projects and also provide an operating reserve in accordance with the District's reserve policy.

Expenses – The District's operating and maintenance expenses decreased by \$60,620 in 2017 as compared to 2016. This decrease is due primarily to not purchasing leased water rights in 2017. The District's administrative and general expenses increased by \$181,405 due primarily to an adjustment in CalPERS retirement expenses as offset by various small increases and decreases in other expenses. A schedule of these expenses is provided on page 24.

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016 AND 2015**

**BUDGET ANALYSIS AND VARIANCES**

Revenue from water sales for 2017 was \$1,636,661 as compared to the budgeted amount of \$1,432,000 for retail and wholesale water sales. 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. However, water usage by volume increased for 2017 despite a significant educational campaign on conservation measures. Therefore, the District's revenue was significantly higher in 2017. Total revenue for 2017 was \$1,653,614 as compared to the budgeted amount of \$1,441,804.

Overall, for 2017, the net income before depreciation was \$419,783, as compared to the budgeted amount of \$201,568. Capital and planned maintenance projects in the amount of \$572,448 were completed as compared to the budgeted amount of \$200,801. The cash reserve at year end was \$1,667,327 which is in the target range of \$1,000,000 to \$5,500,000 established by the Board in the *Reserve Policy Funding Guidelines* in the District's *Rules and Regulations*. Each year the District budgets amounts for capital projects and planned maintenance projects based on its expected operations and available reserves. In 2017, the major projects and equipment purchases included water main and valve replacements, SCADA equipment and water meters.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets – At December 31, 2017 and 2016, the District had investments in land, water rights, buildings, wells and distribution systems, machinery and equipment as follows:

	<b><u>2017</u></b>	<b><u>2016</u></b>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	9,482,141	8,347,247
Machinery and equipment	851,496	824,549
Construction in progress	<u>-</u>	<u>713,677</u>
Totals	<u>\$ 10,482,397</u>	<u>10,034,233</u>



**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016 AND 2015**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Average inflation as measured by the consumer price index for all urban consumers in the Los Angeles area was 2.8% for the 12 months ended December 2017 and the current average rate for 2018 is 2.5%.

General economic conditions improved in 2017 and is expected to improve at a moderate pace in 2018. Although water service is still considered a necessity, the continued efforts of our customers to increase water use efficiency consistent with the restrictions and regulations imposed by the State of California and the County of Los Angeles may cause a further reduction in volumetric sales even though a reduction was not the result in 2017. The District anticipates that an increase in rates will probably be needed in future years to maintain water sales revenue.

In 2018, the District plans to continue capital improvement projects included in the District's ***Water System Master Plan*** and planned maintenance projects using available cash reserves rather than using an installment purchase agreement or other financing.

To continue our high-priority time-critical capital improvement and planned maintenance projects in addition to the major projects described in the preceding paragraph, the Board of Directors approved a budget for 2018 that produces a net operating surplus near zero. However, favorable results to budget will allow additional projects to be completed.

The Board approved a 3% rate increase for 2018 to maintain the current level of water sales revenue in case there is a decline in volumetric sales or an inflationary increase in expenses. Wholesale water sales are budgeted in 2018 to offset any possible decline in retail water sales.

Although weather will continue to play a significant role in determining retail water sales for 2018, other factors such as drought regulations make it increasingly difficult to forecast volumetric sales. However, we will continue to have the option of selling surplus water to the City of Pasadena if there is significant rainfall in 2018 and/or if there is a decline in retail sales due to higher than normal rainfall or greater conservation efforts. These factors when combined make it difficult to know the effect on the District's operations in 2018. Fortunately, the District has the flexibility to adjust expenditures for capital improvements and planned maintenance to meet the overall budget objectives for 2018.

**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. Current and archived documents of the Kinneloa Irrigation District can also be found on our Internet site at <http://www.kinneloa Irrigation District.info>.

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**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Kinneloa Irrigation District  
Pasadena, California

We have audited the accompanying financial statements of Kinneloa Irrigation District (the "District") as of December 31, 2017 and 2016 and the related notes to the financial statements which collectively comprise the District's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles, this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion.**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kinneloa Irrigation District as of December 31, 2017 and 2016, the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis supplementary information on pages 2 to 6 and the Schedules of District's Proportionate Share of the Plan's Net Pension liability and Contributions to the Pension Plan on pages 25 and 26 and be presented to supplement the basic financial statements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Operating Expenses on page 24 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Revenues and the Schedule of Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2018 in our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

*Egan & Egan*

June 20, 2018

**KINNELOA IRRIGATION DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 393,403	222,730
Temporary investments		
Cash, restricted as to use	1,273,924	1,480,637
Receivables		
Customer receivables	222,975	145,310
Prepaid expenses	31,697	25,744
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	1,941,999	1,894,421
<b>Capital assets, net of accumulated depreciation</b>	5,889,007	5,788,411
<b>Deferred outflows of resources</b>		
Deferred amounts from pension plan	<u>21,181</u>	<u>30,295</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 7,852,187</u>	<u>7,713,127</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>Current liabilities</b>		
Current portion of installment purchase contract	\$ 128,854	124,301
Accounts payable and accrued expenses	25,924	19,454
Accrued payroll and payroll taxes	14,381	14,381
Customer deposits	<u>255</u>	<u>3,900</u>
Total current liabilities	169,414	162,036
<b>Installment purchase contract, net of current portion</b>	1,868,536	1,997,374
<b>Net pension liability</b>	<u>331,920</u>	<u>173,870</u>
Total liabilities	2,369,870	2,333,280
<b>Deferred inflows of resources</b>		
Deferred amounts from pension plan	83,822	53,567
<b>Net position</b>		
Invested in capital assets, net of related debt	5,889,007	5,788,411
Unrestricted	<u>(490,512)</u>	<u>(462,131)</u>
Total net position	<u>5,398,495</u>	<u>5,326,280</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 7,852,187</u>	<u>7,713,127</u>

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

**KINNELOA IRRIGATION DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues		
Water sales and service fees	\$ <u>1,636,661</u>	<u>1,517,185</u>
Operating expenses		
Operating and maintenance	610,344	670,964
Administration and general	547,571	366,166
Depreciation	<u>347,568</u>	<u>249,046</u>
Total operating expenses	<u>1,505,483</u>	<u>1,286,176</u>
Operating income	<u>131,178</u>	<u>231,009</u>
Non-operating revenue and expense		
Interest	13,010	13,330
Interest expense	(75,916)	(80,233)
Other income	<u>3,943</u>	<u>10,675</u>
Net non-operating revenue and expense	<u>(58,963)</u>	<u>(56,228)</u>
Change in net position	72,215	174,781
Net position, beginning of year	<u>5,326,280</u>	<u>5,151,499</u>
Net position, end of year	<u>\$ 5,398,495</u>	<u>5,326,280</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, 2017 AND 2016**

<b>Cash flows from operating activities:</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Cash received from customers	\$ 1,558,996	1,499,651
Cash payments to employees for services	(350,511)	(407,550)
Cash payments for services and goods	<u>(713,942)</u>	<u>(689,747)</u>
Net cash provided by operating activities	<u>494,543</u>	<u>402,354</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(448,164)	(1,067,713)
Net cash used (provided )for pension liabilities	104,474	(18,068)
Principal paid on installment purchase agreement	(124,285)	(119,969)
Customer deposits	(3,645)	(52,760)
Other non-operating income	3,943	10,675
Interest expense paid	<u>(75,916)</u>	<u>(80,233)</u>
Cash used by capital and related financing activities activities	<u>(543,593)</u>	<u>(1,328,068)</u>
<b>Cash flows from investing activities:</b>		
Interest received	<u>13,010</u>	<u>13,330</u>
Net decrease in cash and cash equivalents	(36,040)	(912,384)
Cash and temporary investments, beginning of the year	<u>1,703,367</u>	<u>2,615,751</u>
Cash and temporary investments, end of the year	<u>\$ 1,667,327</u>	<u>1,703,367</u>
<b>SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS</b>		
Cash	\$ 393,403	222,730
Temporary investments, restricted as to use	<u>1,273,924</u>	<u>1,480,637</u>
Total cash	<u>\$ 1,667,327</u>	<u>1,703,367</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, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>Reconciliation of operating income to net cash operating activities:</b>		
Operating income	\$ 224,123	231,009
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	347,568	249,046
Increase in receivables	(77,665)	(17,534)
(Increase) decrease in prepaid expenses	(5,953)	3,979
Increase (decrease) in accounts payable and accrued expenses	6,470	(64,146)
Net cash provided by operating activities	\$ 494,543	402,354

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

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1. ORGANIZATION AND 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, 2017, the Board of Directors were as follows:

<u>Name</u>	<u>Title</u>
Gerrie Kilburn	Chair
Gordon Johnson	Treasurer
Timothy Eldridge	Secretary
Frank J. Griffith	Director
William Opel	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. Basis of Presentation and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered, primarily through user charges (water sales and services) or similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses are generated and incurred through the water sales activities to the District's customers. 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.

In accordance with U.S. GAAP, the Balance Sheet reports separate sections for Deferred Outflows of resources, and Deferred Inflows of Resources, when applicable.

b. Deferred Outflows of Resources

Represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources

Represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, will not be recognized as revenue until that time.



**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

c. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net Investment in Capital Assets – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.

Unrestricted – This component of net position consists of net assets that do not meet the definition of restricted or net investment in capital assets.

d. 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

e. 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.

f. 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.

g. 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.

h. Materials and Supplies

Materials and supplies are stated at cost and consist of expendable supplies held for consumption or future additions to Utility Plant.

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

i. Concentration of Credit Risk

The District's receivables are from consumers within a specific geographic area.

j. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

k. Budgetary Process

Each year, the District adopts a budget which provides for its general operations. Budgets are prepared on the accrual basis of accounting. The District follows these procedures in establishing the budget for the fiscal year:

- i. Formal budgetary integration is employed as a management control device during the year for the 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.

l. Income Taxes

The District is exempt from income taxes under provisions of the Internal Revenue Code and related California statutes; accordingly, no provision for income taxes is required.

m. Compensated Absences

It is the District's policy to permit employees to accumulated paid time off for either vacation or illness in accordance with the 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.

n. Operating Revenues and Expenses

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

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

o. Property taxes

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

p. Subsequent Events

The District has evaluated subsequent events through the date at which the financial statements were available to be issued, which was June 20, 2018. No material subsequent events required disclosure.

NOTE 2. CASH AND CASH EQUIVALENTS

At December 31, 2017 and 2016 cash and cash equivalents consist of:

	<u>2017</u>	<u>2016</u>
Insured with financial institutions	\$ 393,403	222,730
Local Agency Investment Fund ("LAIF")	120,494	119,461
Uninsured and uncollateralized	<u>1,153,430</u>	<u>1,361,176</u>
	<u>\$ 1,667,327</u>	<u>1,703,367</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.

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 2. CASH AND CASH EQUIVALENTS, continued**

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 pro rata 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.

**NOTE 3. CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

<b>2017</b>				
	<u>Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u>
	<u>January 1</u>			<u>December 31</u>
Land	\$ 96,700			96,700
Water rights	52,060			52,060
Buildings, wells and distribution system	8,347,247	421,217	713,677	9,482,141
Machinery and equipment	824,549	26,947		851,496
Construction in progress	<u>713,677</u>		<u>(713,677)</u>	<u>-</u>
	10,034,233	448,164		10,482,397
Less accumulated	<u>(4,245,822)</u>	<u>(347,568)</u>		<u>(4,593,390)</u>
Total capital assets	<u>\$ 5,788,411</u>	<u>100,596</u>		<u>5,889,007</u>

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

NOTE 3. CAPITAL ASSETS, continued

<b>2016</b>				
	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700			96,700
Water rights	52,060			52,060
Buildings, wells and distribution system	6,769,204	23,008	1,555,035	8,347,247
Machinery and equipment	795,021	29,528		824,549
Construction in progress	1,253,535	1,015,177	(1,555,035)	713,677
	8,966,520	1,067,713		10,034,233
Less accumulated	(3,996,776)	(249,046)		(4,245,822)
Total capital assets	\$ 4,969,744	818,667		5,788,411

NOTE 4. INSTALLMENT PURCHASE AGREEMENT

During the year ended December 31, 2015, the District entered into a \$2,300,000 installment purchase agreement ("the Agreement") to provide funds for the construction and acquisition of a booster pump station and connector pipelines. The Agreement requires semi-annual payments of principal and interest of \$100,101. Future annual debt service is as follows:

December 31,	Payments	Interest	Service
2018	\$ 128,854	71,348	200,202
2019	133,574	66,628	200,202
2020	138,467	61,735	200,202
Thereafter	1,596,495	305,379	1,901,874
	\$ 1,997,390	505,090	2,502,480

NOTE 5. 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 or through their web site.

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 5. PENSION PLAN, continued**

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.

**Benefits Provided**

Active participants are 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.

	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire Date	12/31/12	01/01/13
Benefit formula	2% @ age 60	2% @ age 62
Benefit vesting schedule	50	52
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible comp	2%	2%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	6.89%	6.73%

**Contributions**

California Public Law requires that the employer contribution rates for all public employees be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarial determined rate and the contribution rate of employees.

**Net Pension Liability**

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The net pension liability for December 31, 2017 was based upon the PERS actuarial valuation for the cost sharing pool as of June 30, 2017.

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

NOTE 5. PENSION PLAN, continued

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 7.15% compounded annually, (b) projected annual salary increases that vary by duration of service, and (c) payroll cost-of-living adjustments that range from of 3.30% to 14.20%. The rates used in (a) and (b) are compounded annually at 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a specific period that depends upon the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of projected payroll over a closed 20-year period. The District does not have an unfunded liability.

Discount Rate

CalPERS used a 7.15% and 7.65% discount rate to determine the total pension liability for the year ended December 31, 2017 and 2016, respectively. The District relies upon the actuarial analysis performed by CalPERS actuaries for the reasonableness of this discount rate.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10</u>	<u>Real Return Years 11+</u>
	%	%	%
Global Equity	51.0	5.25	5.71
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	-0.55	-1.05
	<u>100.0</u>		

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

NOTE 5. PENSION PLAN, continued

Changes in the Net Pension Liability

The changes in the Plan's net pension liability recognized over the measurement period is as follows:

	<u>2017</u>	<u>2016</u>
Beginning of year	\$ <u>173,870</u>	<u>178,176</u>
Service cost	34,912	39,660
Interest on total pension liability	96,015	80,159
Changes in benefit terms	172	-
Recognized differences between expected and actual experience	116,716	(1,386)
Recognized changes of assumptions	15,592	13,109
Employer contributions	(14,988)	(24,269)
Employee contributions	(21,181)	(18,964)
Net investment income	<u>(69,188)</u>	<u>(92,615)</u>
	<u>158,050</u>	<u>(4,306)</u>
Balance at end of year	\$ <u><u>331,920</u></u>	<u><u>173,870</u></u>

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

	<u>Discount Rate</u>		
	<u>Less 1% - 6.15%</u>	<u>Current - 7.15%</u>	<u>Plus 1% - 8.15%</u>
Proportionate Net Pension Liability	\$ <u><u>517,415</u></u>	<u><u>331,920</u></u>	<u><u>178,290</u></u>

The District relies upon CalPERS to compute the liability using an expected long-term rate of return. The following presents the District's proportionate share of the net pension liability calculated using the discount rate for the Plan and what the District's proportionate share would be if it was calculated using a discount rate that is one percent lower and one percent higher:

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the District recognized pension expense of \$197,419.



**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 5. PENSION PLAN, continued**

At December 31, 2017, deferred outflow of resources and deferred inflows of resources related to the Plan were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions after the measurement date	\$ 21,181	
Change in employer's proportion and differences between the District's contributions and the District's proportionate share of contributions		71,353
Net differences between projected and actual earnings on Plan investments		12,468
	\$ 21,181	83,821

The \$21,181 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized ratably through the year ended December 31, 2020.

**NOTE 6. 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 \$5,000,000. Excess liability insurance in the amount of \$55,000,000 has been purchased by the Authority, bringing the total liability coverage to \$60,000,000.

To date, the District and its counsel are not aware of any material claims incurred through the period ended December 31, 2017, regarding these insurance plans. The District does not anticipate the need for a reserve for IBNR.

**NOTE 7. CONTINGENCIES AND COMMITMENTS**

**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 effect on the District's financial condition.

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

NOTE 7. CONTINGENCIES AND COMMITMENTS, continued

**Contingencies**

The District is subject to water usage requirements of the State of California. The District's primary source of water is from groundwater wells and its water rights are sufficient to meet customer demand under normal conditions. Interconnections with the City of Pasadena are used for supplemental water in the event of an operational emergency. The District is also a member agency of the Foothill Municipal Water District which is a wholesale supplier of imported water from the Metropolitan Water District of Southern California.

The accompanying financial statements do not include the effects, if any, should the District be required to import additional water to meet demand.

**SUPPLEMENTARY INFORMATION**

**KINNELOA IRRIGATION DISTRICT  
SCHEDULE OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2015**

	<u>2017</u>	<u>2016</u>
<b>Operating &amp; Maintenance</b>		
Power	\$ 122,814	110,282
Leased water rights	-	63,135
Labor	164,121	183,836
Engineering	10,955	24,456
Maintenance and repairs	28,159	24,710
Water analysis	15,108	17,146
Outside contractors	129,294	102,259
Truck maintenance and fuel	12,889	14,506
Insurance	93,945	101,880
Watermaster	11,039	11,149
Other	22,020	17,605
	<u>610,344</u>	<u>670,964</u>
	\$ <u>610,344</u>	<u>670,964</u>
 <b>Administrative and General</b>		
Administrative salaries	\$ 130,064	130,064
Office labor	61,425	85,794
Payroll taxes	26,627	30,422
CalPERS retirement	28,499	7,138
CalPERS change in estimates	197,419	-
Outside services	27,980	23,349
Legal fees	2,205	11,573
Professional dues	10,608	11,046
Board meetings	5,200	4,000
Office expense	29,440	27,335
Telephone, internet	8,477	5,644
Accounting fees	6,750	8,550
Permits and operational fees	7,333	14,318
Information systems	5,544	6,933
	<u>547,571</u>	<u>366,166</u>
	\$ <u>547,571</u>	<u>366,166</u>

**KINNELOA IRRIGATION DISTRICT**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Proportionate Share of the Plan's Net Pension Liability**  
**For the Year Ended December 31, 2017**

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

<b>Measurement Date:</b>	<b>June 30, 2017<sup>1</sup></b>	<b>June 30, 2016<sup>1</sup></b>	<b>June 30, 2015<sup>1</sup></b>
District's Proportion of the Net Pension Liability	<u>0.008910%</u>	<u>0.008780%</u>	<u>0.002860%</u>
District's Proportionate Share of the Net Pension Liability	<u>\$ 331,920</u>	<u>\$ 173,870</u>	<u>\$ 178,176</u>
District's Covered-Employee Payroll	<u>\$ 350,511</u>	<u>\$ 309,239</u>	<u>\$ 312,539</u>
Liability as a Percentage of Covered-Employee Payroll	<u>94.70%</u>	<u>56.23%</u>	<u>57.01%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>79.77%</u>	<u>78.50%</u>	<u>81.98%</u>

<sup>1</sup> Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

**KINNELOA IRRIGATION DISTRICT**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Contributions to the Pension Plan**  
**For the Year Ended December 31, 2017**

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

<b>Fiscal Year:</b>	<u><b>2016-17<sup>1</sup></b></u>	<u><b>2015-16<sup>1</sup></b></u>	<u><b>2014-15<sup>1</sup></b></u>
Actuarially Determined Contribution <sup>2</sup>	\$ 21,100	\$ 19,754	\$ 22,832
Determined Contribution <sup>2</sup>	<u>(21,100)</u>	<u>(19,754)</u>	<u>(22,832)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	<u>\$ 350,511</u>	<u>\$ 309,239</u>	<u>\$ 312,539</u>
Employee Payroll	<u>6.02%</u>	<u>6.39%</u>	<u>7.31%</u>

<sup>1</sup> Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

<sup>2</sup> Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

<sup>3</sup> Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.