

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT



**For the Years Ended  
December 31, 2021 and 2020**

**EGAN & EGAN**  
Certified Public Accountants

**KINNELOA IRRIGATION DISTRICT  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2021 AND 2020**

**AND INDEPENDENT AUDITOR'S REPORT**

**KINNELOA IRRIGATION DISTRICT  
INDEX TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

	Page
Board of Directors and District Personnel	1
Management's Discussion and Analysis	2
Independent Auditor's Report	7
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position, For the Years Ended December 31, 2021 and 2020	11
Statements of Cash Flows, For the Years Ended December 31, 2021 and 2020	12
Notes to Financial Statements	14
Supplementary Information	26

**KINNELOA IRRIGATION DISTRICT  
BOARD OF DIRECTORS AND DISTRICT PERSONNEL  
AS OF DECEMBER 31, 2021**

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Gordon Johnson	Chairman	2025
Dr. David Moritz	Treasurer	2023
Gerrie Kilburn	Director	2023
Stephen Brown	Director	2025
Timothy Eldridge	Director	2023

MANAGEMENT PERSONNEL

Melvin L. Matthews      General Manager

OFFICE PERSONNEL

Martin Aragon              Office Manager

Sophie Hanson              Administrative Assistant

FIELD PERSONNEL

Chris Burt                      Senior Facilities Operator

Michele Ferrell              Facilities Operator

Brian Fry                      Facilities Operator

Juan Tello                      Facilities Maintenance Worker

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021 AND 2020**

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, 2021. Please read it in conjunction with the District's financial statements, which begin on page 10.

**FINANCIAL HIGHLIGHTS**

The District's operating revenues, consisting primarily of water sales, increased by 4% to \$1,900,436 as compared to 2020 operating revenues of \$1,825,240. The increase is primarily the result of increased water sales and a 3% rate increase.

Total operating, maintenance, administrative and general expenses including depreciation increased by 4% to \$1,834,718 as compared to \$1,757,019 in 2020. The net increase is primarily due to an increase in labor expense, a decrease in the GASB 68 estimate, and decreases in expenses for maintenance and repairs and outside contractors. A schedule of expenses is presented on page 26.

**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 590 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 six 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 [www.kinneloa Irrigation District.info](http://www.kinneloa Irrigation District.info).

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021 AND 2020**

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities as of December 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
Current assets	\$ 2,413,524	2,616,248
Capital assets, net	5,278,468	5,173,344
Deferred outflows of resources	64,858	93,686
Total assets and deferred outflows of resources	<u>\$ 7,756,850</u>	<u>7,883,278</u>
<b>LIABILITIES AND DEFERRED INFLOWS</b>		
Current liabilities	\$ 221,854	207,423
Noncurrent liabilities	1,446,730	1,792,292
Deferred inflows of resources	160,498	35,841
Total liabilities and deferred inflows of resources	<u>1,829,082</u>	<u>2,035,556</u>
<b>NET POSITION</b>		
Investment in capital assets	5,278,468	5,173,344
Unrestricted	649,300	674,378
Total net position	<u>5,927,768</u>	<u>5,847,722</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,756,850</u>	<u>7,883,278</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 \$331,226.

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, 2021 AND 2020**

CHANGES IN NET POSITION

	<u>2021</u>	<u>2020</u>
Total operating revenues	\$ 1,900,436	1,825,240
Total non-operating revenues	<u>14,328</u>	<u>45,750</u>
Total revenues	1,914,764	1,870,990
Total operating expenses	1,764,507	1,695,284
Total non-operating expenses	<u>70,211</u>	<u>61,735</u>
Total expenses	<u>1,834,718</u>	<u>1,757,019</u>
Change in net position	80,046	113,971
Net position, beginning of year	<u>5,847,722</u>	<u>5,733,751</u>
Net position, end of year	<u>\$ 5,927,768</u>	<u>5,847,722</u>

Revenues – Retail water sales by volume increased to 646 acre-feet as compared to 643 acre-feet in 2020 and the total operating revenue increased to \$1,900,436 from \$1,825,240 due to increased water sales and a 3% rate increase.

The District also received \$6,373 in non-operating revenue from interest on its temporary investments and an unrealized loss of \$13,547 in a temporary investment. The District's cash and temporary investments at year end were \$2,193,319 and \$2,340,092 in 2021 and 2020, respectively. The District has identified \$4,952,315 in future projects in its Water 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 increased by \$117,706 in 2021 as compared to 2020. This increase is due primarily to an increase in the labor costs and utilities. The District's administrative and general expenses decreased by \$27,800 due primarily to changes in estimates relating to GASB 68. A schedule of these expenses is provided on page 26.

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021 AND 2020**

**BUDGET ANALYSIS AND VARIANCES**

Revenue from water sales for 2021 was \$1,900,436 as compared to the budgeted amount of \$1,600,000 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. Increased water usage and the 3% rate increase allowed the District to significantly exceed the budgeted revenue for water sales. Total revenue for 2021 was \$1,901,217 as compared to the budgeted amount of \$1,650,000.

Overall, for 2021, the net operating income before depreciation was \$467,155, as compared to the budgeted amount of \$94,581. Capital and planned maintenance projects in the amount of \$592,138 were completed as compared to the budgeted amount of \$777,538. The cash reserve at year end was \$2,193,319 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 2021, the major projects and equipment purchases included the replacement of the office HVAC system, Sierra Madre Villa & Villa Heights Project, and an advanced water metering system for real time measurement of customer water usage and leak detection.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets – At December 31, 2021 and 2020, the District had investments in land, water rights, buildings, wells and distribution systems, machinery and equipment as follows:

	<b><u>2021</u></b>	<b><u>2020</u></b>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	10,055,213	9,620,249
Machinery and equipment	<u>1,008,301</u>	<u>1,006,915</u>
Total	<b><u>\$ 11,212,274</u></b>	<b><u>10,775,924</u></b>

**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 6.6% for the 12 months ended December 2021 and the average rate for 2022 was 8.5% through March 2022.

**KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021 AND 2020**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES, continued

General economic conditions worsened in 2021 primarily due to the coronavirus pandemic but are expected to improve at a moderate pace in 2022 as businesses re-open and supply chain issues are resolved. However, the pandemic has created an economic crisis and although water service is considered a necessity, it has created a high level of uncertainty regarding any impact on water sales or the ability of customers to pay their water bills in a timely manner. Fortunately, the Kinneloa Irrigation District did not experience any problems with receivables in 2021 and no impact is expected in 2022. The restrictions and regulations imposed by the State of California and the County of Los Angeles regarding water service shut offs and mandatory payment plans are not expected to cause a reduction in volumetric sales and revenue in 2022. The annual rainfall in the 2021-2022 season is expected to be well below the 27-year average and future weather patterns will continue to be the major factor in determining water usage since most of the District's water is used for landscape irrigation rather than household use.

In 2022, the District plans to continue capital improvement projects included in the District's Water 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, the Board of Directors approved a budget for 2022 that uses reserves for a major pipeline project. However, favorable operating results to budget will allow these and additional projects to be completed without a major impact to reserves.

The Board approved the 2022 budget without a rate increase for 2022. However, a rate increase in future years may be necessary to address the significant inflation rate in 2021 and 2022 and to fund future capital projects out of reserves or to cover debt service. Wholesale water sales are budgeted in 2022 to offset any possible reduction in retail water sales.

Although weather will continue to play a significant role in determining retail water sales for 2021, 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 2022-2023 and/or if there is a decline in retail sales due to greater conservation efforts. These factors when combined make it difficult to know the effect on the District's operations in 2022. Fortunately, the District has the flexibility to adjust expenditures for capital improvements and planned maintenance to meet the overall budget objectives for 2022.

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 [www.kinneloairrigationdistrict.info](http://www.kinneloairrigationdistrict.info).

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**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
Kinneloa Irrigation District  
Pasadena, California

**Opinion**

We have audited the accompanying financial statements of Kinneloa Irrigation District (the "District") as of and for the years ended December 31, 2021 and 2020 and the related notes to the financial statements which collectively comprise the District's basic financial statements listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial statements contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if

there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 and the Schedules of District's Proportionate Share of the Plan's Net Pension Liability and Contributions to the Pension Plan on pages 27 through 28 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 26 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 May 17, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts.. The purpose of that report is solely 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 the effectiveness of the District's 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*

May 19, 2022

**KINNELOA IRRIGATION DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 308,527	448,753
Cash, restricted as to use	1,884,792	1,891,339
Customer receivables	163,939	222,629
Prepaid expenses	36,266	33,527
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	2,413,524	2,616,248
<b>Capital assets, net of accumulated depreciation</b>	5,278,468	5,173,344
<b>Deferred outflows of resources</b>		
Deferred amounts from pension plan	<u>64,858</u>	<u>93,686</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ <u>7,756,850</u></b>	<b><u>7,883,278</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>Current liabilities</b>		
Current portion of installment purchase contract	\$ 148,796	143,538
Accounts payable and accrued expenses	44,978	35,959
Accrued payroll and payroll taxes	26,025	24,071
Customer deposits	<u>2,055</u>	<u>3,855</u>
Total current liabilities	221,854	207,423
<b>Installment purchase contract, net of current</b>	1,302,275	1,451,072
<b>Net pension liability</b>	<u>144,455</u>	<u>341,220</u>
Total liabilities	1,668,584	1,999,715
<b>Deferred inflows of resources</b>		
Deferred amounts from pension plan	160,498	35,841
<b>Net position</b>		
Invested in capital assets, net of related debt	5,278,468	5,173,344
Unrestricted	<u>649,300</u>	<u>674,378</u>
Total net position	<u>5,927,768</u>	<u>5,847,722</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ <u>7,756,850</u></b>	<b><u>7,883,278</u></b>

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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Operating revenues		
Water sales and service fees	\$ <u>1,900,436</u>	<u>1,825,240</u>
Operating expenses		
Operating and maintenance	953,220	836,551
Administration and general	480,061	506,824
Depreciation	<u>331,226</u>	<u>351,909</u>
Total operating expenses	<u>1,764,507</u>	<u>1,695,284</u>
Operating income	<u>135,929</u>	<u>129,956</u>
Non-operating revenue and expense		
Interest	6,373	21,821
Interest expense	(56,664)	(61,735)
Unrealized (loss) gain	(13,547)	23,929
Other income	<u>7,955</u>	<u>-</u>
Net non-operating revenue and expense	<u>(55,883)</u>	<u>(15,985)</u>
Change in net position	80,046	113,971
Net position, beginning of year	<u>5,847,722</u>	<u>5,733,751</u>
Net position, end of year	<u>\$ <u>5,927,768</u></u>	<u><u>5,847,722</u></u>

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

**KINNELOA IRRIGATION DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

<b>Cash flows from operating activities:</b>	<b><u>2021</u></b>	<b><u>2020</u></b>
Cash received from customers	\$ 1,959,126	1,776,118
Cash payments to employees for services	(552,231)	(504,496)
Cash payments for services and goods	<u>(872,816)</u>	<u>(825,100)</u>
Net cash provided by operating activities	<u>534,079</u>	<u>446,522</u>
 <b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(436,350)	(185,145)
Net cash used (provided) for pension liabilities	(43,280)	16,150
Principal paid on installment purchase agreement	(143,539)	(138,466)
Customer deposits	(1,800)	2,700
Other non-operating gain, net	(13,547)	23,929
Other non-operating income	7,955	-
Interest expense paid	<u>(56,664)</u>	<u>(61,735)</u>
 Cash used by capital and related financing activities	<u>(687,225)</u>	<u>(342,567)</u>
 <b>Cash flows from investing activities:</b>		
Interest received	<u>6,373</u>	<u>21,821</u>
 Net (decrease) increase in cash and cash equivalents	(146,773)	125,776
Cash and cash equivalents, beginning of the year	<u>2,340,092</u>	<u>2,214,316</u>
Cash and cash equivalents, end of the year	<u>\$ 2,193,319</u>	<u>2,340,092</u>
 <b>SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS</b>		
Cash	\$ 308,527	448,753
Temporary investments, restricted as to use	<u>1,884,792</u>	<u>1,891,339</u>
Total cash	<u>\$ 2,193,319</u>	<u>2,340,092</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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>Reconciliation of operating income to net cash operating activities:</b>		
Operating income	\$ 135,929	129,956
Adjustments to reconcile operating income to net provided by operating activities:		
Depreciation	331,226	351,909
Decrease (increase) in receivables	58,690	(49,122)
(Increase) decrease in prepaid expenses	(2,739)	7,404
Increase in accounts payable and accrued expenses	<u>10,973</u>	<u>6,375</u>
Net cash provided by operating activities	<u>\$ 534,079</u>	<u>446,522</u>

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

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**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, 2021, the Board of Directors were as follows:

<u>NAME</u>	<u>OFFICE</u>
Gordon Johnson	Chairman
Dr. David Moritz	Treasurer
Gerrie Kilburn	Director
Stephen Brown	Director
Timothy Eldridge	Director

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental enterprise funds. The more significant policies reflected in the financial statements are summarized as follows:

a. 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 Statements of Net Position 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.

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,  
continued**

c. 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.

d. 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.

e. 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

f. 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. The restriction is at the discretion of the Board.

g. 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.

h. 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

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,  
continued**

h. Cash and Cash Equivalents, continued

requirements primarily with the State Treasurer's Local Agency Investment Fund (LAIF) and CalTrust, a money market account.

i. Materials and Supplies

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

j. Concentration of Credit Risk

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

k. 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.

l. 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.

m. 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.

n. Compensated Absences

It is the District's policy to permit employees to accumulate 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

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,**  
**continued**

n. Compensated Absences, continued

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.

o. 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.

p. 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.

q. Subsequent Events

The District has evaluated subsequent events through the date at which the financial statements were available to be issued, which was May 19, 2022.

**NOTE 2. CASH AND CASH EQUIVALENTS**

At December 31, 2021 and 2020 cash and cash equivalents consist of:

	<u>2021</u>	<u>2020</u>
Insured with financial institutions	\$ 308,527	448,753
Local Agency Investment Fund ("LAIF")	128,239	127,715
Uninsured and uncollateralized	<u>1,756,553</u>	<u>1,763,624</u>
	<u>\$ 2,193,319</u>	<u>2,340,092</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).

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

NOTE 2. CASH AND CASH EQUIVALENTS, continued

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

The District is a voluntary participant in LAIF, which is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's 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 policymakers of the members, supervises and administers the investment program of the Trust. CalTrust invests in fixed income securities eligible for investment pursuant to California Government Code. Investment in CalTrust accounts are uninsured and uncollateralized.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages its exposure to interest rate risk by participating in LAIF.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not believe a credit risk exists from its deposits with LAIF.

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**NOTE 3. CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2021 and 2020 was as follows:

<b>2021</b>					
		Balance January 1	Additions	Disposal & Transfers	Balance December 31
Land	\$	96,700			96,700
Water rights		52,060			52,060
Buildings, wells and distribution system		9,620,249	434,964		10,055,213
Machinery and equipment		1,006,915	1,431	45	1,008,301
		10,775,924	436,395	45	11,212,274
Less accumulated		(5,602,580)	(331,226)		(5,933,806)
Total capital assets	\$	5,173,344	105,169	45	5,278,468
<b>2020</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		9,513,172	107,077		9,620,249
Machinery and equipment		931,822	78,068	2,975	1,006,915
		10,593,754	185,145		10,775,924
Less accumulated		(5,253,646)	(351,909)	(2,975)	(5,602,580)
Total capital assets	\$	5,340,108	(166,764)	-	5,173,344

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**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:

Year ended December 31,	Installment Payments	Interest	Total Debt Service
2022	\$ 148,796	51,406	200,202
2023	154,246	45,956	200,202
2024	159,896	40,306	200,202
2025	165,753	34,449	200,202
2026	171,825	28,377	200,202
Thereafter	650,555	48,222	698,777
	\$ 1,451,071	248,716	1,699,787

The District pledged Net Water Revenues as security for the Agreement. The District is required to maintain a minimum unrestricted fund balance of \$200,200.

**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.

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**

PERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service.

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

NOTE 5. PENSION PLAN, continued

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law, taking effect January 1, 2013. The new legislation closed the District's PERS 2.5% at 55 and 2% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. The District has 6 employees included in Classic. All employees hired after January 1, 2013, are eligible for the District's PERS 2% at 62 Retirement Plan under PEPRA. The District has 2 employees covered by New Classic.

The Plans' provision and benefits in effect as of the June 30, 2021 measurement are as follows:

	<b>Miscellaneous Plan</b>		
	<b>Classic</b>	<b>New Classic</b>	<b>PEPRA</b>
	Prior to <u>January 1, 2011</u>	On or after <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Hire Date			
Benefit formula	2.0% @ age 55	2% @ age 60	2% @ age 62
Benefit vesting schedule	5 service years	5 service years	5 service years
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-55	52-67	52-67
Monthly benefits, as a % of eligible comp.	2.0% to 2.5%	1.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	6.902%	6.912%	6.25%
Required employer contribution rates	8.892%	7.634%	6.842%

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.

Employer contributions for the years ended December 31, 2021 and 2020 were \$43,355 and \$37,734, respectively.

Net Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of December 31, 2021 the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net <u>Pension Liability</u>
Miscellaneous	\$ <u>144,455</u>

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

NOTE 5. PENSION PLAN, continued

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2021, and the total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2021.

The District's proportionate share of the net pension liability for the Plan as of the reporting period ending December 31, 2021 and 2020 was as follows:

	<u>Miscellaneous</u>
December 31, 2020	0.00809%
December 31, 2021	0.00761%
Change - Increase	-0.00480%

For the years ended December 31, 2021 and 2020, the District recognized pension expense of \$23,691 and \$83,592, respectively. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions after the measurement date	\$ 21,517	
Differences between actual and expected experience	16,199	
Change in employer's proportion and differences between the District's contributions and the District's proportionate share of contributions	27,142	34,396
Differences between projected and actual earnings on Plan investments		126,102
	\$ 64,858	160,498

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ending December 31,</u>	<u>Amount</u>
2022	\$ (26,977)
2023	(27,197)
2024	(28,135)
2025	(34,848)
	\$ (117,157)

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

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 of 2.75%. 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. As of the date of the PERS actuarial valuation and the PERS assumptions, the District does not have an unfunded liability.

Discount Rate

CalPERS used a 7.15% discount rate to determine the total pension liability for the year ended December 31, 2021 and 2020. 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>
	%	%
Global Equity	50.0	4.80
Fixed Income	28.0	1.00
Inflation Assets	0.0	0.77
Private Equity	8.0	6.30
Real Assets	13.0	3.75
Liquidity	1.0	0.00
	<u>100.0</u>	

**KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**NOTE 5. PENSION PLAN, continued**

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

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:

	Discount Rate		
	Less 1% - 6.15%	Current - 7.15%	Plus 1% - 8.15%
Proportionate Net Pension Liability	\$ <u>385,117</u>	<u>144,455</u>	<u>(54,496)</u>

**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, 2021, regarding these insurance plans. The District does not anticipate the need for a reserve for Incurred but Not Reported.

**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, 2021 AND 2020**

**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.

**COVID-19 Pandemic**

On April 2, 2020, the Governor of the State of California issued an Executive Order ("Order") N-42-20 responding to the COVID-19 pandemic, which prohibits the discontinuation of water service for lack of payment. The District has not incurred significant loss from this Order.

**SUPPLEMENTARY INFORMATION**

**KINNELOA IRRIGATION DISTRICT  
SCHEDULE OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>Operating &amp; Maintenance</b>		
Power	\$ 174,346	137,678
Purchased water	63,135	63,135
Labor	291,380	241,107
Engineering	33,647	28,551
Maintenance and repairs	45,933	39,069
Water analysis	15,497	26,907
Outside contractors	133,124	130,086
Truck maintenance and fuel	30,969	29,022
Insurance	116,463	114,097
Watermaster	13,047	10,503
Other	35,679	16,396
	<u>\$ 953,220</u>	<u>836,551</u>
 <b>Administrative and General</b>		
Administrative salaries	\$ 145,486	143,326
Office labor	122,776	116,221
Payroll taxes	42,606	37,695
CalPERS retirement	43,355	38,034
CalPERS change in estimates	(19,664)	45,558
Outside services	25,432	26,150
Legal fees	18,181	9,737
Professional dues	15,199	14,111
Board compensation	7,350	6,450
Office expense	45,928	41,966
Telephone, internet	8,051	5,999
Accounting fees	7,100	7,100
Permits and operational fees	8,644	7,218
Information systems	9,617	7,048
Election	-	211
	<u>\$ 480,061</u>	<u>506,824</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, 2021**

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

<b>Measurement Date:</b>	<b>June 30, 2021<sup>1</sup></b>	<b>June 30, 2020<sup>1</sup></b>	<b>June 30, 2019<sup>1</sup></b>	<b>June 30, 2018<sup>1</sup></b>
District's Proportion of the Net Pension Liability	<u>0.0000929%</u>	<u>0.0000948%</u>	<u>0.008380%</u>	<u>0.008070%</u>
District's Proportionate Share of the Net Pension Liability	<u>\$ 144,455</u>	<u>\$ 341,220</u>	<u>\$ 305,004</u>	<u>\$ 271,329</u>
District's Covered-Employee Payroll	<u>\$ 554,185</u>	<u>\$ 491,319</u>	<u>\$ 444,684</u>	<u>\$ 398,795</u>
Liability as a Percentage of Covered-Employee	<u>26.07%</u>	<u>69.45%</u>	<u>68.59%</u>	<u>68.04%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>90.49%</u>	<u>77.71%</u>	<u>77.73%</u>	<u>80.09%</u>

**KINNELOA IRRIGATION DISTRICT**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Contributions to the Pension Plan**  
**For the Year Ended December 31, 2021**

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

<b>Fiscal Year:</b>	<u><b>2020-21<sup>1</sup></b></u>	<u><b>2019-20<sup>1</sup></b></u>	<u><b>2018-19<sup>1</sup></b></u>	<u><b>2017-18<sup>1</sup></b></u>	<u><b>2016-17<sup>1</sup></b></u>	<u><b>2015-16<sup>1</sup></b></u>
Actuarially Determined Contribution <sup>2</sup>	\$ 42,594	\$ 33,964	\$ 30,027	\$ 23,647	\$ 21,100	\$ 19,754
Actuarially Determined Contribution <sup>2</sup>	<u>(42,594)</u>	<u>(33,964)</u>	<u>(30,027)</u>	<u>(23,647)</u>	<u>(21,100)</u>	<u>(19,754)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>					
District's Covered-Employee Payroll	<u>\$ 554,185</u>	<u>\$ 491,319</u>	<u>\$ 444,684</u>	<u>\$ 398,795</u>	<u>\$ 350,511</u>	<u>\$ 309,239</u>
Covered-Employee Payroll	<u>7.69%</u>	<u>6.91%</u>	<u>6.75%</u>	<u>5.93%</u>	<u>6.02%</u>	<u>6.39%</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.