

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT



**For the Years Ended December 31, 2014 and 2013**

**EGAN & EGAN**  
Certified Public Accountants

**KINNELOA IRRIGATION DISTRICT  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2014 AND 2013**

**AND INDEPENDENT AUDITORS' REPORT**

KINNELOA IRRIGATION DISTRICT  
INDEX TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

	Page
Board of Directors and District Personnel	1
Management's Discussion and Analysis	2
Independent Auditors' Report	7
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Net Assets, For the Years Ended December 31, 2014 and 2013	10
Statements of Cash Flows, For the Years Ended December 31, 2014 and 2013	11
Notes to Financial Statements	13
Supplementary Information	21

KINNELOA IRRIGATION DISTRICT  
BOARD OF DIRECTORS AND DISTRICT PERSONNEL  
DECEMBER 31, 2014 AND 2013

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Gerrie G. Kilburn	Chairman	2015
Steven G. Sorell	Treasurer	2015
Gordon Johnson	Secretary	2017
Frank J. Griffith	Director	2017
Timothy Eldridge	Director	2015

MANAGEMENT PERSONNEL

Melvin L. Matthews      General Manager

OFFICE PERSONNEL

Shirley Burt              Administrative Assistant

Bernadette Allen        Accounting Assistant

FIELD PERSONNEL

Chris Burt                Facilities Supervisor

Brian Fry                 Facilities Operator

Chris Mellinger         Facilities Operator

Felix Galindo            Groundskeeper

KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014 AND 2013

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, 2014. 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 1.5% to \$1,454,379 as compared to 2013 operating revenues of \$1,433,013. The increase is primarily the result of increased water sales to our retail customers due to the continuation of an extended period of drought conditions. There were no rate increases in 2014.

Total operating, maintenance, administrative and general expenses including depreciation increased by 17% to \$1,382,330 as compared to the 2013 operating expenses of \$1,176,994. The net increase is primarily due to higher expenses for power, truck maintenance and fuel, leased water rights, system maintenance and for the contractors who do leak repair and other projects for the District. There was no significant net increase in administrative and general expenses except for \$11,790 charged by the County of Los Angeles for conducting the election for one office on the District's Board of Directors. A schedule of expenses is presented on page 21.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

The District operates as a utility enterprise and its annual report consists of a series of financial statements presented on the full accrual basis of accounting. The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Assets 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 584 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, 2014 AND 2013

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2014 and 2013.

NET ASSETS

	<u>2014</u>	<u>2013</u>
Capital assets, net	\$3,959,033	\$4,092,080
Other assets, net	1,585,915	1,400,956
Total assets	<u>5,544,948</u>	<u>5,493,036</u>
Other liabilities	74,945	104,318
Total liabilities	<u>74,945</u>	<u>104,318</u>
Invested in capital assets, net of debt	3,959,033	4,092,080
Unrestricted	<u>1,510,970</u>	<u>1,296,638</u>
Total net assets	<u><u>\$5,470,003</u></u>	<u><u>\$5,388,718</u></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 \$265,654.

Net assets – Unrestricted net assets 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". The District is required to apply the Government Accounting Standards Board (GASB) Statement No. 34. GASB 34 requires, among other things, that the difference between assets and liabilities be reported as net assets, not equity.

KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014 AND 2013

CHANGES IN NET ASSETS

	<u>2014</u>	<u>2013</u>
Total operating revenues	\$ 1,454,379	1,433,013
Total non-operating revenues	<u>9,236</u>	<u>4,599</u>
Total revenues	1,463,615	1,437,612
Total operating expenses	<u>1,382,330</u>	<u>1,176,994</u>
Total expenses	<u>1,382,330</u>	<u>1,176,994</u>
Change in net assets	81,285	260,618
Net assets, beginning of year	<u>5,388,718</u>	<u>5,128,100</u>
Net assets, end of year	<u>\$ 5,470,003</u>	<u>5,388,718</u>

Revenues – Retail water sales by volume increased to 725 acre-feet as compared to 709 acre-feet in 2013 and total operating revenue increased to \$1,454,379 from \$1,433,013.

The District also received \$9,236 in non-operating revenue primarily from interest on its temporary investments. The District's temporary investments at year end were \$1,428,116 and \$1,236,543 in 2014 and 2013, respectively. The increase in 2014 as compared to 2013 is attributed to the planned decrease in capital projects for 2014 in order to provide funds for future major capital improvement projects in 2015 and 2016. The District has identified \$3,947,000 in future projects in its Water Master Plan. The temporary investments will be used for 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 \$177,430 in 2014 as compared to 2013. The increase is due primarily to higher expenses for system maintenance and for the contractors who do leak repair and other projects. These expenses are not predictable. The District's administrative and general expenses increased by \$14,694 due primarily to the County of Los Angeles election expense which occurred because more than one candidate filed for election or re-election to a division director position.

KINNELOA IRRIGATION DISTRICT  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 DECEMBER 31, 2014 AND 2013

BUDGET ANALYSIS AND VARIANCES

Revenue from water sales for 2014 was \$1,454,379 as compared to the budgeted amount of \$1,298,000 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. There were no rate changes in 2014. Although no revenue was realized from wholesale water sales in 2014, increased revenue from retail water sales allowed the District to exceed its water sales revenue goal for 2014 by \$156,379. Wholesale water sales are not predictable since only the water not needed to meet the demand of our retail customers is available for sale to our wholesale customer. Total revenue for 2014 was \$1,463,614 as compared to the budgeted amount of \$1,312,000.

Overall, for 2014, the net revenue surplus before depreciation was \$346,939, as compared to the budgeted amount of \$207,190. Capital and planned maintenance projects in the amount of \$132,606 were completed as compared to the budgeted amount of \$129,300. The cash reserve at year end was \$1,428,116 as compared with the target range between \$1,000,000 and \$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 2014, the major projects and equipment purchases included: preparation of plans and specifications for pipeline and booster pump projects; electrical upgrades at several facilities; and improvements to our data acquisition and control system.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2014 and 2013, the District had investments in land, water rights, buildings, wells and distribution systems, machinery and equipment as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	6,739,591	6,631,528
Machinery and equipment	<u>784,299</u>	<u>759,755</u>
Totals	<u>\$ 7,672,650</u>	<u>7,540,043</u>

KINNELOA IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014 AND 2013

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 1.3% for the 12 months ended December 2014.

The general economic picture in 2015 is expected to reflect a continued slow recovery from the multi-year recession. Because water service is a basic necessity, we do not expect any significant change in water sales. However, since we will continue to emphasize water use efficiency consistent with the restrictions and regulations imposed by the State of California and the County of Los Angeles, volumetric sales may decline.

In 2015, the District plans to begin two major projects included in the District's Master Plan. The East-West Tank Connector Pipeline and the Vosburg Pump Station Replacement projects have a combined cost of approximately \$2 million. In order to maintain adequate cash reserves, the District intends to obtain 15-year financing for the majority of project expenditures.

In order 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 has approved a budget for 2015 that produces a net operating surplus at approximately the same level as 2014.

The District did not increase rates for 2014. However, the Board has approved a 5% increase for 2015 in order to maintain the current level of water sales revenue with the expected decline in volumetric sales. No wholesale water sales were budgeted due to water supply limitations and the projected demand by our retail customers.

Weather will continue to play a significant role in determining retail water sales for 2014. We will continue to have the option of selling surplus water to the City of Pasadena if there is significant rainfall in 2015 and/or if there is a decline in retail sales due to higher than normal rainfall or greater conservation efforts. These factors when combined are anticipated to have a neutral effect on the District's operations in 2015. The District also has the flexibility to adjust expenditures for capital improvements and planned maintenance if necessary to meet the overall budget objectives for 2015.

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>.

**EGAN & EGAN**  
CERTIFIED PUBLIC ACCOUNTANTS  
1545 N. COLUMBUS AVENUE  
GLENDALE, CA 91202  
(877) EGAN 4 US      EGANCPA.COM

**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, 2014 and 2013 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, 2014 and 2013, 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 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2015 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.

The signature is written in a cursive, handwritten style. It consists of the words "Egan & Egan" in a fluid, connected script.

April 21, 2015

**KINNELOA IRRIGATION DISTRICT  
BALANCE SHEETS  
DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,178,116	986,543
Cash, restricted as to use	250,000	250,000
Customer receivables	112,439	119,545
Prepaid expenses	25,360	24,868
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	1,585,915	1,400,956
<b>Capital assets, net of accumulated depreciation</b>	<u>3,959,033</u>	<u>4,092,080</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,544,948</u>	<u>5,493,036</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 39,941	86,080
Accrued payroll and payroll taxes	14,769	17,855
Customer deposits	<u>20,235</u>	<u>383</u>
Total current liabilities	74,945	104,318
<b>Net assets</b>		
Invested in capital assets, net of related debt	3,959,033	4,092,080
Unrestricted	<u>1,510,970</u>	<u>1,296,638</u>
Total net assets	<u>5,470,003</u>	<u>5,388,718</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 5,544,948</u>	<u>5,493,036</u>

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

**KINNELOA IRRIGATION DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u><b>2014</b></u>	<u><b>2013</b></u>
Operating revenues		
Water sales and service fees	\$ <u>1,454,379</u>	<u>1,433,013</u>
Operating expenses		
Operating and maintenance	770,401	592,971
Administration and general	346,275	331,581
Depreciation	<u>265,654</u>	<u>252,442</u>
Total operating expenses	<u>1,382,330</u>	<u>1,176,994</u>
Operating income	<u>72,049</u>	<u>256,019</u>
Non-operating revenue		
Interest	<u>9,236</u>	<u>4,599</u>
Total non-operating revenue	<u>9,236</u>	<u>4,599</u>
Change in net assets	81,285	260,618
Net assets, beginning of year	<u>5,388,718</u>	<u>5,128,100</u>
Net assets, end of year	<u>\$ 5,470,003</u>	<u>5,388,718</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, 2014 AND 2013**

<b>Cash flows from operating activities:</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Cash received from customers	\$ 1,461,485	1,411,246
Cash payments to employees for services	(387,294)	(375,765)
Cash payments for services and goods	<u>(779,099)</u>	<u>(500,275)</u>
Net cash provided by operating activities	<u>295,092</u>	<u>535,206</u>
 <b>Cash flows from capital and related financing activities:</b>		
Cash paid for construction and acquisition of capital assets	(132,607)	(123,307)
Principal paid on lease obligation	-	(18,979)
Customer deposits	<u>19,852</u>	<u>37</u>
Cash used by capital and related financing activities	<u>(112,755)</u>	<u>(142,249)</u>
 <b>Cash flows from investing activities:</b>		
Interest received	<u>9,236</u>	<u>4,599</u>
Cash provided by investing activities	<u>9,236</u>	<u>4,599</u>
Net increase in cash and cash equivalents	191,573	397,556
Cash and temporary investments, beginning of the year	<u>1,236,543</u>	<u>838,987</u>
Cash and temporary investments, end of the year	<u>\$ 1,428,116</u>	<u>1,236,543</u>
 <b>SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS</b>		
Cash	\$ 1,178,116	986,543
Temporary investments, restricted as to use	<u>250,000</u>	<u>250,000</u>
Total cash	<u>\$ 1,428,116</u>	<u>1,236,543</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, 2014 AND 2013**

<b>Reconciliation of operating income to net cash operating activities:</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Operating income	\$ 72,049	256,019
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	265,654	252,442
Decrease (increase) in receivables	7,106	(21,767)
Increase in prepaid expenses	(492)	(3,264)
(Decrease) increase in accounts payable and accrued expenses	<u>(49,225)</u>	<u>51,776</u>
Net cash provided by operating activities	<u>\$ 295,092</u>	<u>535,206</u>

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

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kinneloa Irrigation District (the "District") is a special district organized in 1953 under the provisions of Division 11 of the Water Code of the State of California. The District delivers water to the residents in a specific area of Los Angeles County, northeast of the City of Pasadena. This District is not a subdivision of a larger governmental organization.

The District is governed by an elected Board of Directors. At December 31, 2014, the Board of Directors were as follows:

<u>Name</u>	<u>Title</u>
Gerrie G. Kilburn	Chair
Steven G. Sorell	Treasurer
Gordon Johnson	Secretary
Frank J. Griffith	Director
Timothy Eldridge	Director

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

a. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, retained earnings, revenues and expenses. The District has one fund, which is presented in the accompanying financial statement as a Proprietary Fund category, Enterprise Fund type.

b. Basis of Accounting

The District uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred. Unbilled receivables are not reflected in the accompanying financial statements because the amounts are not material.

The District maintains its financial statements using accounting principles for Enterprise Funds.

KINNELOA IRRIGATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2014 AND 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

c. Utility Plant

Utility plant is stated at cost. The District capitalizes applicable overhead costs in connection with self-constructed assets. Depreciation of all exhaustible utility plant is charged as an expense in the accompanying statements of income. Depreciation is provided over the estimated useful lives of the asset using the straight-line method. Estimated useful lives are as follows:

	<u>Number of Years</u>
Water system	5 to 50
Autos and trucks	3 to 5
Office equipment	5 to 10
Office and production facilities	10 to 40

d. Restricted Assets

The Board of Directors has designated a portion of the District's cash and cash equivalents to be maintained for future capital improvements.

e. Uncollectible Accounts

The District's management estimates that accounts receivable are collectible. Unpaid water accounts receivable become a lien on the property and must be paid upon the sale of the property.

f. Cash and Cash Equivalents

The District defines cash and cash equivalents as demand account balances, cash on hand and money market accounts.

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

g. Materials and Supplies

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

h. Concentration of Credit Risk

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

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

i. Estimates

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

j. Budgetary Process

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

- i. Formal budgetary integration is employed as a management control device during the year for the operations.
- ii. The Board approves the total budget for the year for the District. The Board is authorized to make any budget adjustments during the year.
- iii. Unused appropriations lapse at the end of the year unless extended into the subsequent year by a vote of the Board of Directors.

k. Income Taxes

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

l. Compensated Absences

It is the District's policy to permit employees to accumulated paid time off for either vacation or illness in accordance with the limits expressed in its employee handbook. Upon termination, retirement or death of an employee, the District pays eligible accrued time in a lump-sum payment to the employee or beneficiary. Accumulated paid time off is recorded as an expense and a liability at the time the benefit is earned.

m. Operating Revenues and Expenses

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

KINNELOA IRRIGATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2014 AND 2013

n. Property taxes

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

o. Subsequent Events

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

**NOTE 2. CASH AND CASH EQUIVALENTS**

At December 31, 2014 and 2013 cash and cash equivalents consist of:

	<u>2014</u>	<u>2013</u>
Insured with financial institutions	\$ 338,155	403,361
Local Agency Investment Fund ("LAIF")	118,538	118,257
Uninsured and uncollateralized	971,423	714,925
	<u>\$ 1,428,116</u>	<u>1,236,543</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, 2014 AND 2013

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, 2014 and 2013 was as follows:

<b>2014</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		6,631,528	108,063		6,739,591
Machinery and equipment		759,755	24,544		784,299
		7,540,043	132,607		7,672,650
Less accumulated		(3,447,963)	(265,654)		(3,713,617)
Total capital assets	\$	4,092,080	(133,047)		3,959,033

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 3. CAPITAL ASSETS, continued

2013				
	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700			96,700
Water rights	52,060			52,060
Buildings, wells and distribution system	6,529,271	102,257		6,631,528
Machinery and equipment	738,705	21,050		759,755
	7,416,736	123,307		7,540,043
Less accumulated	(3,195,521)	(252,442)		(3,447,963)
Total capital assets	\$ 4,221,215	(129,135)		4,092,080

NOTE 4. PENSION PLAN

Plan Description

The District contributes to the State of California Public Employees Retirement System ("PERS"), an agent multi-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by statute and city ordinance. Copies of PERS' annual financial report may be obtained from their offices 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.

Funding Policy

For the years ended December 31, 2014 and 2013, participants were required to contribute 7% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost

Annual pension cost was 6.786% and 8.005% for the periods January 1, 2014 through June 30, 2014 and the period July 1, 2014 through December 31, 2014, respectively. The District made

KINNELOA IRRIGATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2014 AND 2013

contributions of \$20,796 and \$17,408 for the years ended December 31, 2014 and 2013, respectively. The District does not have a Net Pension Obligation under current generally accepted accounting principles.

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 7.50% compounded annually, after June 30, 2014, the rate was 7% (b) projected annual salary increases that vary by duration of service, and (c) payroll cost-of-living adjustments of 3.30%. 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.

The following presents a short history of the funded status of the entire PERS plan, covered payroll and related actuarial information:

<u>Dollars in 1,000; Zeros Omitted</u>						
Valuation Date	Accrued Liabilities	Actuarial Assets	PERS Unfunded Liabilities (UL)	Funded Ratio %	Annual Covered Payroll	UL as a % of Payroll
06/30/13	943,564	799,768	143,796	84.8	273,234	52.6
06/30/12	876,657	707,246	169,411	80.7	234,726	72.2
06/30/11	896,216	760,869	135,347	84.9	234,453	57.7

**NOTE 5. INSURANCE POOLS**

The District is a member of the Joint Powers Insurance Authority ("JPIA"), which pools together members of the Association of California Water Agencies for the purpose of paying group property, general liability and workers' compensation claims. Premiums are remitted directly to the JPIA by its members. The property portion is entirely self-funded, and the general liability self-funded portion is capped at \$500,000. Excess liability insurance in the amount of \$29,500,000 has been purchased by the Authority, bringing the total liability coverage to \$30,000,000.

To date, the District and its counsel are not aware of any material claims incurred through the period ended December 31, 2014 regarding these insurance plans. The District does not anticipate the need for a reserve for IBNR.

KINNELOA IRRIGATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

NOTE 6. NET ASSETS

The District is required to present the difference between assets and liabilities as net assets, net equity. Net assets are classified as either restricted, unrestricted or invested in capital assets, net of debt.

Net assets that are invested in capital assets, net of debt consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition or construction of those assets.

Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of debt.” Unlike the restricted net assets, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net assets. The Board may at any time change or eliminate amounts established for these purposes.

NOTE 7. CONTINGENCIES

The District is the subject of certain claims and assessment arising in the normal course of its operations. Management of the District does not believe that the resolution of these matters will have a material adverse effect on the District's financial condition.

The District is subject to water curtailment requirements of the State of California due to the current drought. 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 water to meet demand.

**SUPPLEMENTARY INFORMATION**

KINNELOA IRRIGATION DISTRICT  
SCHEDULE OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>Operating &amp; Maintenance</b>		
Power	\$ 118,301	107,499
Leased water rights	63,135	47,275
Labor	175,896	159,921
Engineering	33,768	14,960
Maintenance and repairs	37,637	22,036
Water analysis	17,667	15,784
Outside contractors	173,354	95,629
Truck maintenance and fuel	20,958	15,014
Insurance	93,373	83,936
Safety equipment	260	570
Watermaster	10,680	9,731
Other	<u>25,372</u>	<u>20,616</u>
	<u>\$ 770,401</u>	<u>592,971</u>
 <b>Administrative and General</b>		
Administrative salaries	\$ 125,244	126,300
Office labor	79,668	80,639
Payroll taxes	29,129	27,815
CalPERS retirement	20,796	17,408
Outside services	10,703	9,604
Legal fees	5,543	2,421
Professional dues	9,226	7,517
Board meetings	3,400	4,300
Office expense	24,000	23,840
Telephone	6,227	6,829
Accounting fees	6,200	6,200
Permits and operational fees	9,572	11,218
Information systems	4,777	7,490
Election	<u>11,790</u>	<u>-</u>
	<u>\$ 346,275</u>	<u>331,581</u>