

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT



For the Years Ended December 31, 2015 and 2014

EGAN & EGAN
Certified Public Accountants

**KINNELOA IRRIGATION DISTRICT
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

AND INDEPENDENT AUDITORS' REPORT

**KINNELOA IRRIGATION DISTRICT
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DECEMBER 31, 2015 AND 2014**

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**KINNELOA IRRIGATION DISTRICT
BOARD OF DIRECTORS AND DISTRICT PERSONNEL
DECEMBER 31, 2015 AND 2014**

BOARD OF DIRECTORS

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

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

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

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, 2015. 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, decreased by 14% to \$1,248,223 as compared to 2014 operating revenues of \$1,454,379. The decrease is primarily the result of the successful conservation effort by our retail customers due to the mandated drought-related legislation and the resulting regulations. Due to the decline in water usage, the rate increase in 2015 was not sufficient to maintain the water sales revenue.

Total operating, maintenance, administrative and general expenses including depreciation decreased by 5.3% to \$1,308,746 as compared to the 2014 operating expenses of \$1,382,330. The net decrease is primarily due to lower expenses for power, system maintenance and for the contractors who do leak repair and other projects for the District as offset by a slight increase in administrative and general expenses including a greater use of contracted services and an adjustment in salaries to reflect the rate of inflation. A schedule of expenses is presented on page 24.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

The District operates as a utility enterprise and its annual report consists of a series of financial statements presented on the full accrual basis of accounting. The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Position provide information about the District as a whole and present a longer-term view of the District's finances.

DESCRIPTION OF OPERATIONS

The District provides water to 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, 2015 AND 2014**

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2015 and 2014.

NET POSITION

	<u>2015</u>	<u>2014</u>
Capital assets, net	\$4,969,744	\$3,959,033
Other assets, net	<u>2,826,001</u>	<u>1,585,915</u>
Total assets	<u>7,795,745</u>	<u>5,544,948</u>
Long-term liabilities	2,299,911	-
Other liabilities	<u>274,550</u>	<u>74,945</u>
Total liabilities	<u>2,574,461</u>	<u>74,945</u>
Invested in capital assets, net of debt	4,969,744	3,959,033
Unrestricted	<u>181,755</u>	<u>1,510,970</u>
Total net position	<u><u>\$5,151,499</u></u>	<u><u>\$5,470,003</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 \$283,159.

Net position – The net position decreased from the prior year due to the current year's excess of expenses over revenues. 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 position, not equity.

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

CHANGES IN NET POSITION

	<u>2015</u>	<u>2014</u>
Total operating revenues	\$ 1,248,223	1,454,379
Total non-operating revenues	<u>10,697</u>	<u>9,236</u>
Total revenues	1,258,920	1,463,615
Total operating expenses	1,308,746	1,382,330
Total non-operating expenses	<u>41,745</u>	<u>-</u>
Total expenses	<u>1,350,491</u>	<u>1,382,330</u>
Change in net assets	(91,571)	81,285
Net position, beginning of year	<u>5,470,003</u>	<u>5,388,718</u>
Restatement for pension liabilities	<u>(226,933)</u>	<u>0</u>
Net position, end of year	<u>\$ 5,151,499</u>	<u>5,470,003</u>

Revenues – Retail water sales by volume decreased to 553 acre-feet as compared to 725 acre-feet in 2014 and total operating revenue decreased to \$1,248,223 from \$1,454,379.

The District also received \$10,697 in non-operating revenue primarily from interest on its temporary investments. The District's temporary investments at year end were \$2,615,751 and \$1,428,116 in 2015 and 2014, respectively. The increase in 2015 as compared to 2014 is attributed to the planned major capital improvement projects in 2015 and 2016 that are to be financed using an installment purchase agreement negotiated in 2015 rather than using cash reserves. The District has identified \$3,947,000 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 decreased by \$111,113 in 2015 as compared to 2014. The decrease is due primarily to lower 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 \$20,024 due primarily to a greater use of contract services and due to a slight increase in salaries to reflect the cost of living adjustment.

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

BUDGET ANALYSIS AND VARIANCES

Revenue from water sales for 2015 was \$1,248,223 as compared to the budgeted amount of \$1,400,000 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. Although there were rate increases in 2015, the significant reduction in water usage caused a revenue shortage that was not offset with the unbudgeted wholesale water sales in 2015. 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 2015 was \$1,258,920 as compared to the budgeted amount of \$1,414,000.

Overall, for 2015, the net income before depreciation was \$191,588, as compared to the budgeted amount of \$277,955. Capital and planned maintenance projects in the amount of \$55,885 were completed as compared to the budgeted amount of \$268,800. This amount does not include the major projects that were financed through an installment purchase agreement negotiated in 2015. The cash reserve at year end was \$2,615,751 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 2015, the major projects and equipment purchases included mainline valve replacements, SCADA equipment and water meters.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2015 and 2014, the District had investments in land, water rights, buildings, wells and distribution systems, machinery and equipment as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	6,769,204	6,739,591
Machinery and equipment	795,021	784,299
Construction in progress	<u>1,253,535</u>	<u>-</u>
Totals	<u>\$ 8,966,520</u>	<u>7,672,650</u>

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

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 0.9% for the 12 months ended December 2015 and the current average rate for 2016 is 2.75%.

The general economic picture in 2016 is expected to reflect a continued slow recovery from the multi-year recession. Although water service is still considered a basic necessity, the continued efforts of our customers to increase water use efficiency consistent with the restrictions and regulations imposed by the State of California and the County of Los Angeles may cause a further reduction in volumetric sales. This will probably necessitate a rate increase in 2016 to maintain water sales revenue.

In 2016, the District plans to begin another major project included in the District's Master Plan, the East-West Tank Connector Pipeline, at a cost of approximately \$673,000. In order to maintain adequate cash reserves for other future capital improvement and scheduled maintenance projects, the pipeline project will use funds already obtained in 2015 through a 15-year installment purchase agreement.

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 approved a budget for 2016 that produces a net operating surplus at approximately the same level as 2015.

The Board approved a 15% rate increase for 2016 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.

Although weather will continue to play a significant role in determining retail water sales for 2016, 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 2016 and/or if there is a decline in retail sales due to higher than normal rainfall or greater conservation efforts. These factors when combined make it difficult to know the effect on the District's operations in 2016. Fortunately, the District has the flexibility to adjust expenditures for capital improvements and planned maintenance to meet the overall budget objectives for 2016.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our purveyors, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the District's finance office at 1999 Kinclair Drive, Pasadena, CA 91107. Current and archived documents of the Kinneloa Irrigation District can also be found on our Internet site at <http://www.kinneloa Irrigation District.info>.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Kinneloa Irrigation District
Pasadena, California

We have audited the accompanying financial statements of Kinneloa Irrigation District (the "District") as of December 31, 2015 and 2014 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, 2015 and 2014, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules on page 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May __, 2016 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.



May 24, 2016

**KINNELOA IRRIGATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 237,265	1,178,116
Cash, restricted as to use	2,378,486	250,000
Customer receivables	127,776	112,439
Prepaid expenses	29,723	25,360
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	2,793,250	1,585,915
Capital assets, net of accumulated depreciation	4,969,744	3,959,033
Deferred outflows of resources		
Deferred amounts from pension plan	<u>32,751</u>	<u> </u>
TOTAL ASSETS	<u>\$ 7,795,745</u>	<u>5,544,948</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of installment purchase contract	\$ 119,909	
Accounts payable and accrued expenses	79,744	39,941
Accrued payroll and payroll taxes	18,237	14,769
Customer deposits	<u>56,660</u>	<u>20,235</u>
Total current liabilities	274,550	74,945
Installment purchase contract, net of current portion	2,121,735	
Net pension liability	<u>178,176</u>	<u> </u>
Total liabilities	2,574,461	74,945
Deferred inflows of resources		
Deferred amounts from pension plan	69,785	
Net position		
Invested in capital assets, net of related debt	4,969,744	3,959,033
Unrestricted	<u>181,755</u>	<u>1,510,970</u>
Total net position	<u>5,151,499</u>	<u>5,470,003</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 7,795,745</u>	<u>5,544,948</u>

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

**KINNELOA IRRIGATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Operating revenues		
Water sales and service fees	\$ <u>1,248,223</u>	<u>1,454,379</u>
Operating expenses		
Operating and maintenance	659,288	770,401
Administration and general	366,299	346,275
Depreciation	<u>283,159</u>	<u>265,654</u>
Total operating expenses	<u>1,308,746</u>	<u>1,382,330</u>
Operating (loss) income	<u>(60,523)</u>	<u>72,049</u>
Non-operating revenue		
Interest	10,697	9,236
Interest expense	<u>(41,745)</u>	<u>-</u>
Total non-operating revenue	<u>(31,048)</u>	<u>9,236</u>
Change in net position	(91,571)	81,285
Net position, beginning of year	<u>5,470,003</u>	<u>5,388,718</u>
Restatement of beginning net position for pension related debt	<u>(226,933)</u>	<u> </u>
Net position, end of year	<u>\$ <u>5,151,499</u></u>	<u><u>5,470,003</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, 2015 AND 2014**

Cash flows from operating activities:	<u>2015</u>	<u>2014</u>
Cash received from customers	\$ 1,232,886	1,461,485
Cash payments to employees for services	(401,432)	(387,294)
Cash payments for services and goods	<u>(585,247)</u>	<u>(779,099)</u>
Net cash provided by operating activities	<u>246,207</u>	<u>295,092</u>
 Cash flows from capital and related financing activities:		
Cash paid for construction and acquisition of capital assets	(1,293,870)	(132,607)
Net cash provided used for pension liabilities	(11,723)	
Principal paid on installment purchase agreement	(58,356)	
Proceeds from installment purchase agreement	2,300,000	
Customer deposits	36,425	19,852
Interest expense paid	<u>(41,745)</u>	
Cash provided (used) by capital and related financing activities	<u>930,731</u>	<u>(112,755)</u>
 Cash flows from investing activities:		
Interest received	<u>10,697</u>	<u>9,236</u>
Net increase in cash and cash equivalents	1,187,635	191,573
Cash and temporary investments, beginning of the year	<u>1,428,116</u>	<u>1,236,543</u>
Cash and temporary investments, end of the year	<u>\$ 2,615,751</u>	<u>1,428,116</u>
 SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS		
Cash	\$ 237,265	1,178,116
Temporary investments, restricted as to use	<u>2,378,486</u>	<u>250,000</u>
Total cash	<u>\$ 2,615,751</u>	<u>1,428,116</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, 2015 AND 2014**

Reconciliation of operating income to net cash operating activities:	<u>2015</u>	<u>2014</u>
Operating income	\$ (60,523)	72,049
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	283,159	265,654
Decrease (increase) in receivables	(15,337)	7,106
Increase in prepaid expenses	(4,363)	(492)
(Decrease) increase in accounts payable and accrued expenses	<u>43,271</u>	<u>(49,225)</u>
Net cash provided by operating activities	<u>\$ 246,207</u>	<u>295,092</u>

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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, 2015, the Board of Directors were as follows:

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

The District uses the accrual method of accounting for an enterprise fund. An enterprise fund in a proprietary fund type used to account for operations similar to a business enterprise. 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.

b. New Accounting Principles

Government Accounting Standards Board Statement No. 68

For the fiscal year ended June 30, 2015, the District implemented Government Accounting Standards Board Statement No. 68 and No. 71 ("GASB 68 and 71"), *Accounting and Financial Reporting for Pensions*. The requirements of this statement are effective for the financial statement periods beginning after June 15, 2014. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses for defined benefit.

c. Net Position

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

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

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

d. Utility Plant

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

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

e. Restricted Assets

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

f. Uncollectible Accounts

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

g. Cash and Cash Equivalents

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

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

h. Materials and Supplies

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

i. Concentration of Credit Risk

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

j. Estimates

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

k. Budgetary Process

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

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

l. Income Taxes

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

m. Compensated Absences

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

n. Operating Revenues and Expenses

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

o. Property taxes

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

p. 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, 2015 and 2014 cash and cash equivalents consist of:

	<u>2015</u>	<u>2014</u>
Insured with financial institutions	\$ 237,265	338,155
Local Agency Investment Fund ("LAIF")	118,870	118,538
Uninsured and uncollateralized	<u>2,259,616</u>	<u>971,423</u>
	<u>\$ 2,615,751</u>	<u>1,428,116</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.

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.

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2. CASH AND CASH EQUIVALENTS, continued

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, 2015 and 2014 was as follows:

2015				
	Balance			Balance
	January 1	Additions	Transfers	December 31
Land	\$ 96,700			96,700
Water rights	52,060			52,060
Buildings, wells and distribution system	6,739,591	29,613		6,769,204
Machinery and equipment	784,299	10,722		795,021
Construction in progress		1,253,535		1,253,535
	7,672,650	1,293,870		8,966,520
Less accumulated	<u>(3,713,617)</u>	<u>(283,159)</u>		<u>(3,996,776)</u>
Total capital assets	<u>\$ 3,959,033</u>	<u>1,010,711</u>		<u>4,969,744</u>

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 3. CAPITAL ASSETS, continued

2014				
	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

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
2016	\$ 119,909	80,293	200,202
2017	124,301	75,901	200,202
2018	128,854	71,348	200,202
2019	133,574	66,628	200,202
2020	138,467	61,735	200,202
Thereafter	1,596,539	305,379	1,901,918
	\$ 2,241,644	661,284	2,902,928

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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

Active participants are required to contribute 7% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the District are established and may be amended by PERS.

	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire Date	12/31/12	01/01/13
Benefit formula	2% @ age 60	2% @ age 62
Benefit vesting schedule	50	52
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible comp	2%	2%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	11.99%	6.73%

Contributions

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 5. PENSION PLAN, continued

Net Pension Liability

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures as actuarially determined.

As of January 1, 2015, the District recorded its proportionate share of the net pension liability of \$226,933. The District's Statement of Net Position reflects the pension related debt as a restatement of the beginning of the year. At December 31, 2015, the net pension liability is \$178,176.

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, 2015, 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.

Discount Rate

CalPERS used a 7.5% discount rate to determine the total pension liability. The District relies upon the actuarial analysis performed by CalPERS actuaries for the reasonableness of this discount rate. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is schedule to be completed in February 2018.

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 5. PENSION PLAN, continued

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10</u>	<u>Real Return Years 11+</u>
	%	%	%
Global Equity	47.0	5.25	5.71
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	-0.55	-1.05

Changes in the Net Pension Liability

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

Balance at valuation date, June 30, 2013	\$ <u>245,678</u>
Service cost	40,098
Interest on total pension liability	75,573
Changes in benefit terms	-
Recognized differences between expected and actual experience	-
Recognized changes of assumptions	-
Employer contributions	(24,269)
Employee contributions	(18,964)
Net investment income	<u>(139,940)</u>
	<u>(67,502)</u>
Balance at valuation date, June 30, 2014	<u>\$ 178,176</u>

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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% - 6.5%	Current - 7.5%	Plus 1% - 8.5%
Proportionate Net Pension Liability	\$ <u>320,873</u>	<u>178,176</u>	<u>59,752</u>

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

For the year ended December 31, 2015, the District recognized pension expense of \$13,580. At December 31, 2015, deferred outflow of resources and deferred inflows of resources related to the Plan were as follows

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions after the measurement date	\$ 32,751	
Change in employer's proportion and differences between the District's contributions and the District's proportionate share of contributions		65,715
Net differences between projected and actual earnings on Plan investments		<u>4,070</u>
	<u>\$ 32,751</u>	<u>69,785</u>

The \$32,751 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended December 31,	Deferred Inflow of Resources
2016	\$ 1,454
2017	1,454
2018	<u>1,162</u>
	<u>\$ 4,070</u>

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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 \$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, 2015, regarding these insurance plans. The District does not anticipate the need for a reserve for IBNR.

NOTE 7. CONTINGENCIES AND COMMITMENTS

Contingencies

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

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.

Commitments

In connection with the improvements financed by the \$2,300,000 installment note, the District entered into a contract in the amount of \$798,623 for a pipeline project subsequent to December 31, 2015.

SUPPLEMENTARY INFORMATION

**KINNELOA IRRIGATION DISTRICT
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Operating & Maintenance		
Power	\$ 108,380	118,301
Leased water rights	63,135	63,135
Labor	179,731	175,896
Engineering	41,981	33,768
Maintenance and repairs	30,754	37,637
Water analysis	15,127	17,667
Outside contractors	82,752	173,354
Truck maintenance and fuel	14,433	20,958
Insurance	101,918	93,373
Safety equipment	-	260
Watermaster	10,969	10,680
Other	10,108	25,372
	<u>659,288</u>	<u>770,401</u>
	\$	
Administrative and General		
Administrative salaries	\$ 130,064	125,244
Office labor	91,905	79,668
Payroll taxes	30,003	29,129
CalPERS retirement	13,580	20,796
Outside services	20,650	10,703
Legal fees	9,775	5,543
Professional dues	9,490	9,226
Board meetings	3,200	3,400
Office expense	26,485	24,000
Telephone, internet	5,827	6,227
Accounting fees	6,200	6,200
Permits and operational fees	12,112	9,572
Information systems	7,008	4,777
Election	-	11,790
	<u>366,299</u>	<u>346,275</u>
	\$	