

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT



For the Years Ended December 31, 2013 and 2012

EGAN & EGAN
Certified Public Accountants

**KINNELOA IRRIGATION DISTRICT
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012**

AND INDEPENDENT AUDITORS' REPORT

KINNELOA IRRIGATION DISTRICT
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DECEMBER 31, 2013 AND 2012

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KINNELOA IRRIGATION DISTRICT
BOARD OF DIRECTORS AND DISTRICT PERSONNEL
DECEMBER 31, 2013 AND 2012

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, 2013 AND 2012

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, 2013. 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 3% to \$1,433,013 as compared to 2012 operating revenues of \$1,391,759. 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 and rate increases.

Total operating, maintenance, administrative and general expenses including depreciation decreased by \$21,432 to \$1,176,994 as compared to 2012 operating expenses of \$1,198,426. The net decrease is primarily due to lower expenses for system maintenance and the contractors who do leak repair and other projects for the District as offset by the higher administrative and general expenses for office labor and insurance.

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 581 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, 2013 AND 2012

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2013 and 2012.

NET ASSETS

	<u>2013</u>	<u>2012</u>
Capital assets, net	\$4,092,080	\$4,221,215
Other assets, net	1,400,956	978,369
Total assets	<u>5,493,036</u>	<u>5,199,584</u>
Other liabilities	104,318	71,484
Total liabilities	<u>104,318</u>	<u>71,484</u>
Invested in capital assets, net of debt	4,092,080	4,221,215
Unrestricted	<u>1,296,638</u>	<u>906,885</u>
Total net assets	<u><u>\$5,388,718</u></u>	<u><u>\$5,128,100</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 \$252,442.

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, 2013 AND 2012

CHANGES IN NET ASSETS

	<u>2013</u>	<u>2012</u>
Total operating revenues	\$ 1,433,013	1,391,759
Total non-operating revenues	<u>4,599</u>	<u>5,688</u>
Total revenues	1,437,612	1,397,447
Total operating expenses	<u>1,176,994</u>	<u>1,198,426</u>
Total non-operating expenses	<u>-</u>	<u>1,762</u>
Total expenses	<u>1,176,994</u>	<u>1,200,188</u>
Change in net assets	260,618	197,259
Net assets, beginning of year	<u>5,128,100</u>	<u>4,930,841</u>
Net assets, end of year	<u>\$ 5,388,718</u>	<u>5,128,100</u>

Revenues – Retail water sales by volume increased to 709 acre-feet as compared to 685 acre-feet in 2012 and total operating revenue including the revenue from wholesale water sales increased to \$1,433,013 from \$1,391,759.

The District also received \$4,599 in non-operating revenue primarily from interest on its temporary investments. The District's temporary investments at year end were \$1,236,543 and \$838,987 in 2013 and 2012, respectively. The increase in 2013 as compared to 2012 is attributed to the planned decrease in capital projects for 2013 in order to provide funds for future major capital improvement projects in 2015 and 2016. The District has identified \$3,945,000 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 decreased by \$43,950 in 2013 as compared to 2012. The decrease is due primarily to lower expenses for system maintenance and for the contractors who do leak repair and other projects. The District's administrative and general expenses increased by \$23,467 due primarily to expanding the accounting assistant's responsibilities from a part-time to a full-time position.

KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012

BUDGET ANALYSIS AND VARIANCES

Revenue from retail and wholesale water sales for 2013 was \$1,433,013 as compared to the budgeted amount of \$1,383,000. 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 revenue from wholesale water sales was much less than the budgeted amount for 2013, increased revenue from retail water sales allowed the District to exceed its overall revenue goal for 2013 by \$50,013. 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.

Overall, for 2013, the net revenue surplus before depreciation was \$513,060, as compared to the budgeted amount of \$345,860. Capital and planned maintenance projects in the amount of \$123,307 were completed as compared to the budgeted amount of \$256,681. A portion of the budgeted amount not spent in 2013 will be carried over to future projects. The cash reserve at year end was \$1,236,543 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 2013, the major projects and equipment purchases included: purchase of replacement water meters; rebuilding of two booster pumps; removal and reinstallation of a well pump; facility maintenance; electrical upgrades at several facilities; and improvements to our data acquisition and control system.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2013 and 2012, the District had investments in land, water rights, buildings, wells and distribution systems, machinery and equipment as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	6,631,528	6,529,271
Machinery and equipment	<u>759,755</u>	<u>738,705</u>
Totals	<u>\$ 7,540,043</u>	<u>7,416,736</u>

KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Inflation as measured by the consumer price index for all urban consumers in the Los Angeles area was 1.1% for the 12 months ended December 2013.

The general economic picture in 2014 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, we will continue to emphasize water use efficiency consistent with the official drought declaration and the "20% by 2020" water-use reduction mandate by the State of California and the 30% reduction in our local ground water supply that is available for production.

In order to build our reserves for a major pipeline project and a booster station project in 2015 and to reduce the amount needed for financing, the Board of Directors has approved a budget for 2014 that produces a net operating surplus at approximately the same level as 2013. Expenditures for capital improvement and maintenance projects for 2014 will continue to be limited to high-priority time-critical projects.

The District has maintained current rates for 2014 but the Board will consider rate increases during the budgeting process for 2015. The budgeted wholesale water sales for 2014 was significantly reduced to reflect the expected supply of surplus available water 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 2014 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 2014. The District also has the flexibility to adjust expenditures for capital improvements and planned maintenance if necessary to meet the overall budget objectives for 2014.

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, 2013 and 2012 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, 2013 and 2012, 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 22, 2014 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.



April 22, 2014

**KINNELOA IRRIGATION DISTRICT
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 986,543	588,987
Cash, restricted as to use	250,000	250,000
Receivables		
Water sales, net of allowance for doubtful accounts of	119,545	97,778
Prepaid expenses	24,868	21,604
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	1,400,956	978,369
Capital assets, net of accumulated depreciation	<u>4,092,080</u>	<u>4,221,215</u>
TOTAL ASSETS	<u>\$ 5,493,036</u>	<u>5,199,584</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of lease payable	\$	18,979
Accounts payable and accrued expenses	86,080	36,227
Accrued payroll and payroll taxes	17,855	15,932
Customer deposits	<u>383</u>	<u>346</u>
Total current liabilities	104,318	71,484
Net assets		
Invested in capital assets, net of related debt	4,092,080	4,221,215
Unrestricted	<u>1,296,638</u>	<u>906,885</u>
Total net assets	<u>5,388,718</u>	<u>5,128,100</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,493,036</u>	<u>5,199,584</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Operating revenues		
Water sales and service fees	\$ <u>1,433,013</u>	<u>1,391,759</u>
Operating expenses		
Operating and maintenance	592,971	636,921
Administration and general	331,581	306,352
Depreciation	<u>252,442</u>	<u>255,153</u>
Total operating expenses	<u>1,176,994</u>	<u>1,198,426</u>
Operating income	<u>256,019</u>	<u>193,333</u>
Non-operating revenues (expenses)		
Interest	4,599	3,671
Interest expense		(1,762)
Federal disaster assistance		<u>2,017</u>
Total non-operating revenue	<u>4,599</u>	<u>3,926</u>
Change in net assets	260,618	197,259
Net assets, beginning of year	<u>5,128,100</u>	<u>4,930,841</u>
Net assets, end of year	<u>\$ <u>5,388,718</u></u>	<u><u>5,128,100</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, 2013 AND 2012**

Cash flows from operating activities:	<u>2013</u>	<u>2012</u>
Cash received from customers	\$ 1,411,246	1,425,952
Cash payments to employees for services	(375,765)	(330,935)
Cash payments for services and goods	<u>(500,275)</u>	<u>(590,910)</u>
Net cash provided by operating activities	<u>535,206</u>	<u>504,107</u>
 Cash flows from capital and related financing		
Cash paid for construction and acquisition of capital	(123,307)	(42,065)
Principal paid on lease obligation	(18,979)	(18,119)
Customer deposits	37	(2,154)
Federal disaster assistance	<u> </u>	<u>2,017</u>
Cash used by capital and related financing activities	<u>(142,249)</u>	<u>(60,321)</u>
 Cash flows from investing activities:		
Interest received	4,599	3,671
Interest paid	<u> </u>	<u>(1,762)</u>
Cash provided by investing activities	<u>4,599</u>	<u>1,909</u>
Net increase in cash and cash equivalents	397,556	445,695
Cash and temporary investments, beginning of the year	<u>838,987</u>	<u>393,292</u>
Cash and temporary investments, end of the year	<u>\$ 1,236,543</u>	<u>838,987</u>
 SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS		
Cash	\$ 986,543	588,987
Temporary investments, restricted as to use	<u>250,000</u>	<u>250,000</u>
Total cash	<u>\$ 1,236,543</u>	<u>838,987</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, 2013 AND 2012**

Reconciliation of operating income to net cash operating activities:	<u>2013</u>	<u>2012</u>
Operating income	\$ 256,019	193,333
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	252,442	255,153
Decrease (increase) in receivables	(21,767)	34,193
Decrease (increase) in prepaid expenses	(3,264)	828
(Decrease) increase in accounts payable and accrued expenses	<u>51,776</u>	<u>20,600</u>
Net cash provided by operating activities	<u>\$ 535,206</u>	<u>504,107</u>

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

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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, 2013, 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, 2013 AND 2012

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.

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.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2. CASH AND CASH EQUIVALENTS

At December 31, 2013 and 2012 cash and cash equivalents consist of:

	<u>2013</u>	<u>2012</u>
Insured with financial institutions	\$ 403,361	259,683
Local Agency Investment Fund ("LAIF")	118,257	117,931
Uninsured and uncollateralized	<u>714,925</u>	<u>461,373</u>
	<u>\$ 1,236,543</u>	<u>838,987</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 prorata 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.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2. CASH AND CASH EQUIVALENTS, continued

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, 2013 and 2012 was as follows:

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
2012				
	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700			96,700
Water rights	52,060			52,060
Buildings, wells and distribution system	6,525,057	4,214		6,529,271
Machinery and equipment	716,128	22,577		738,705
	7,389,945	26,791		7,416,736
Less accumulated	(2,955,642)	(239,879)		(3,195,521)
Total capital assets	\$ 4,434,303	(213,088)		4,221,215

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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, 2013 and 2012, 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 5.903% and 6.786% for the periods January 1, 2013 through June 30, 2013 and the period July 1, 2013 through December 31, 2013, respectively. The District made contributions of \$17,408 and \$14,341 for the years ended December 31, 2013 and 2012, 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, 2013, 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.

KINNELOA IRRIGATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013 AND 2012

NOTE 4 - PENSION PLAN, continued

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>						
<u>Valuation</u>	<u>Accrued</u>	<u>Actuarial</u>	<u>PERS</u>	<u>Funded</u>	<u>Annual</u>	<u>UL as a</u>
<u>Date</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Unfunded</u>	<u>Ratio</u>	<u>Covered</u>	<u>% of</u>
			<u>(UL)</u>	<u>%</u>	<u>Payroll</u>	<u>Payroll</u>
						<u>%</u>
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
06/30/10	624,423	467,904	156,519	74.9	186,778	83.8

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, 2013 regarding these insurance plans. The District does not anticipate the need for a reserve for IBNR.

NOTE 6. NET ASSETS

The District is required to present the difference between assets and liabilities as net assets, not 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.

KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 6. NET ASSETS, continued

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.

SUPPLEMENTARY INFORMATION

KINNELOA IRRIGATION DISTRICT
 SCHEDULE OF OPERATING EXPENSES
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating & Maintenance		
Power	\$ 107,499	103,626
Leased water rights	47,275	37,200
Labor	159,921	160,019
Engineering	14,960	9,116
Maintenance and repairs	22,036	56,164
Water analysis	15,784	21,178
Outside contractors	95,629	122,387
Truck maintenance and fuel	15,014	15,722
Insurance	83,936	66,971
Safety equipment	570	99
Water master	9,731	11,360
Administrative fees		3,002
Other	<u>20,616</u>	<u>30,077</u>
	<u>\$ 592,971</u>	<u>636,921</u>

Administrative and General		
Administrative salaries	\$ 126,300	124,931
Office labor	80,639	63,922
Payroll taxes	27,815	26,018
CalPERS retirement	17,408	14,341
Outside services	9,604	9,299
Legal fees	2,421	3,645
Professional dues	7,517	7,872
Board meetings	4,300	5,200
Office expense	23,840	19,588
Telephone	6,829	8,237
Accounting fees	6,200	6,200
Permits and operational fees	11,218	14,272
Information systems	<u>7,490</u>	<u>2,827</u>
	<u>\$ 331,581</u>	<u>306,352</u>