

KINNELOA IRRIGATION DISTRICT

Regular Meeting – Board of Directors
1999 Kinclair Drive, Pasadena, CA 91107
Tuesday, July 16, 2019
3:00 P.M.

AGENDA

1. **CALL TO ORDER** – 3:00 P.M.
 - a. Declaration of a quorum
 - b. Review of agenda
2. **PUBLIC COMMENT** – Comments from the Public regarding items on the Agenda or other items within the jurisdiction of the District
In compliance with the Brown Act, the Board cannot discuss or act on items not on the Agenda. However, Board Members or District Staff may acknowledge Public comments, briefly respond to statements or questions posed by the Public, ask a question for clarification, or request Staff to place item on a future Agenda (Government Code section §54954.2)
3. **REVIEW OF MINUTES** – June 18, 2019 minutes
Recommended Action: Review and approve motion to file with any corrections
4. **REVIEW OF FINANCIAL REPORTS** – June 30, 2019 financial reports
Recommended Action: Review and approve motion to file
5. **GENERAL MANAGER’S REPORT** – Information item presented by General Manager
Recommended Action: General Manager to summarize the report and respond to questions
6. **INFORMATION ITEM** – Memo from District’s attorney regarding CalPERS issues raised in discussion of the 2018 audit.
7. **DIRECTOR REPORTS AND/OR COMMENTS** – In accordance with Government Code §54954.2 Directors may make brief announcements or brief reports on their own activities. Directors may ask a question for clarification, provide a reference to staff or other resources for information, request staff to report back to the Directors at a subsequent meeting, or act to direct staff to place a matter of business on a future agenda.
8. **CALENDAR** – August 20, 2019
September 17, 2019
October 15, 2019

9. ADJOURNMENT

In compliance with the Americans with Disabilities Act, if you are a disabled person and need a disability-related modification or accommodation to participate in this meeting, please contact the District office 48 hours prior to the meeting at 626-797-6295. Each item on the agenda, no matter how described, shall be deemed to include any appropriate motion, whether to adopt a minute motion, resolution, payment of any bill, approval of any matter or action, or any other action. Material related to an item on this agenda submitted after distribution of the agenda packet is available for public review at the District office or online at the District’s website <https://kinneloirrigationdistrict.info>.

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DIRECTORS PRESENT: Tim Eldridge, Frank Griffith, Gordon Johnson, Gerrie Kilburn, Bill Opel

DIRECTORS ABSENT: None

STAFF PRESENT: General Manager Melvin Matthews, Sr. Facilities Operator Chris Burt,
Office Manager/Board Secretary Bernadette Allen

1. CALL TO ORDER: Chair Gordon Johnson called the meeting to order at 3:00 p.m. A quorum of Board Members was present. The Agenda was reviewed. The auditors phoned the office to notify the Board that they were stuck in traffic and would be late. The Board agreed to proceed with the Agenda, and Item 3 would be discussed after the auditor's arrival.

2. PUBLIC COMMENT: District resident Dr. Dave Moritz was present and stated that he was glad to be here and thanked the Board for having him.
Auditors, Gail Egan, CPA, and Bobby Egan, CPA (arrived 3:10 p.m. - departed 3:59 p.m.)

4. REVIEW OF MINUTES: Agenda Item 4 out of order. The minutes of April 16, 2019, and May 21, 2019, were reviewed. Chair Gordon Johnson stated that he had requested that staff listen to the tape and confirm the written text captured the cost-of-living discussion on April 16th. He reviewed the minutes and had a discussion with the Board Secretary, and he is happy with the minutes. Director Opel requested the title "Dr." be added to the minutes of May 21, 2019, Item 2, and the Chair requested the same edit be made to past minutes.
It was motioned/seconded/carried unanimously-(Griffith/Opel-5/0).

"That the Board approve the minutes as corrected for filing and posting on the website."

5. REVIEW OF FINANCIAL REPORTS: Director/Treasurer Bill Opel reviewed the financial reports for May 31, 2019, highlighting that the year to date variance shown on the income statement is only \$2,697 behind. Water sales were down, and expenses were over budget. The General Manager answered questions regarding maintenance contractor expenses. Director Opel also highlighted the CalTrust balance and unrealized gain (loss) and suggested that the Directors may be interested in going to the CalTrust website for information about the fund. He added that cash flow was not as beneficial as it has been, but mainly because the District paid down the debt. Director Griffith asked if the staff would provide numbers for potential interest saving if payments were made more frequently. The General Manager replied that the District can pay any amount over the installment payment, which would be applied to the principal, and he will provide analysis and figures as an information item at a future Board meeting.

It was motioned/seconded/carried unanimously-(Griffith/Kilburn-5/0).

"That the Board approve the financial reports for filing as presented."

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3. 2018 AUDIT: [Quotation marks in this Agenda Item indicate transcribed remarks.]

After the Chair welcomed the auditors Gail Egan and Bobby Egan, Gail Egan stated that had there been a disagreement with Management, the auditors would not have waited for a meeting to notify the Board. She affirmed that there were no disagreements with Management in performing the audit. The books were ready and the audit was performed with no difficulties. She specified that page 7 and 8 of the audit report is the only document that belongs to the auditor. She stated that they are issuing an unmodified or clean opinion of the accounts of the District and the accounts are in accordance with government audit standards. She added, "Since this is also a special district, which has business elements, the accounting treatment is also that which you would find in an investor owned utility as well as taking into account the specific required governmental accounting standards as well as governmental disclosures."

Gail Egan continued, "The most significant and sensitive estimate and disclosures within what is going to be in almost every state and local government audit opinion is the retirement benefits, the participation in CalPERS, and not for this District, but there's something called OPEB, which is the employee benefits. This District does not have post-employment benefit liability, which is life-time healthcare, as many districts do. So, we don't have that liability issue, but the participation in CalPERS, as it was indicated, is a growing liability on most state and local government financial statements. The accounting standards continue to move on and move forward and evolve, so that the balance sheet presentation is such that all liabilities that are known or could be known are being incorporated within the financial statements, and the unfunded liability at CalPERS used to be just within a footnote. Now there is quite lengthy disclosure and schedules, required supplementary information. Half of the report in the footnotes, I think are taken up with the pension disclosure, in that is a long footnote. The data comes from a valuation from CalPERS. We don't come up with the data. The District obtains this data and includes it in their financial statement, and we audit it. Although, we rely on, and it's indicated here, we rely on the CalPERS actuary to come up with some of this sensitivity analysis. And, you can see that just a 1% change, actually, if we can flip to page 22, this is probably the most significant item within the financial statements. This is a sensitivity analysis that's obtained from PERS and PERS is actually using a very high earnings rate. They've not achieved the earnings rate for which they've projected their liability, ever. In fact, last year they actually had a 1% decline in their investments. So, this sensitivity proportion on 22 is if they had lowered the earnings rate, discount rate in your pension liability by 1 full percent, the liability is roughly, what is that? \$180,000 difference. So, this is a coming bubble and command on your cash. Where you have a very good borrowing rate, you're going to be seeing from PERS, the percent of payroll dollars that they require you to contribute to be continuously increasing to try and quell some of this unfunded dollars."

Director Opel asked, "And this is not due to any benefits our own employees are gonna get. This is our share of liabilities in the total fund?"

Gail Egan replied, "This is already for committed benefits that have been provided to, actually there's now 2 PERS funds. The people that were hired within the last 2 years are in PEPR. They receive a different benefit that is supposed to be less generous and pushes out the retirement age just a little bit to try to also lower the unfunded liability. So, most of the liability that this

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would then, these financial statements are for employees that have been here for quite a long time. And, there's not been any change in the benefit formula, and for a while, PERS had printed and provided to Districts, and they haven't done it, in a while. You actually have to pay for it, I think. If you were to say, and this is not a recommendation, if you were just to say, all you folks here, we recognize you had a benefit and this is it, but we're freezing it, and we're going to go to the equivalent of a 403B, what would it take for us either to, freeze the benefit and fully fund it or to leave PERS. At one point in time, Mr. Matthews obtained that and we had it disclosed, but it's not been obtainable, because you have to pay for it now. And, since it's not being contemplated, why do that. But, the covered, the amount that PERS is going to require you to pay on covered salaries will continue to go up. So, from a cash flow standpoint, since you have very good borrowing rate, I'm not sure I would pay for it, pay it off earlier. Because, if PERS lowers their discount rate, and we have a bigger liability on the financials, the banking sources are going to look at these unfunded liabilities that are now sitting on your books, and they make you a less worthy credit, as far as the banks go. So, we have clients, other clients that are trying to fund, increase their funding into PERS so that the unfunded is down in the pool, so that the liability is off their balance sheet because they plan to borrow to do some major projects. So, that's the most significant disclosure, most sensitive disclosure within the financial statements. The rest, and this is a significant audit area, the rest is pretty straight forward. You deliver water to your customers. You pay for the water. And, you continue to build out your plant to make sure that it's maintained such that, that water is delivered without any major system breaks or like. Everything else is fairly consistent year to year, and there's no other new required disclosures."

Gail asked if there were any questions. Director Opel requested corrections to: Item 3 - page 8, paragraph 5, the last sentence the word "decline" looks like "dedine." And he questioned on Item 3 - page 3, if the Board Officers and Personnel were listed correctly. After some discussion, Gail Egan commented that it may be clearer if the header was changed from "December 31, 2018 and 2017" to "As of December 31, 2018." The Staff was directed by the Board to correct the Board officers and Personnel listed to be those who were in place as of December 31, 2018. And, Item 3 - Page 15, Board of Directors should also be corrected.

Director Opel commented that he thought that in the head notes, that the character of the District was embodied very well, and the turns of phrase on what we do and how we do it, were really well stated. The General Manager stated that this is the District's section of the report, which he writes. Gail Egan added that it's a testament to this District that we have folks here who are aware of what management's responsibility is, and they provide a very good management's discussion and analysis.

Director Opel commented that he thinks the District, if it's possible in a reasonable way, freeze the CalPERS obligation and move to something like a 403B. The auditor recommended that the Board seek out District's counsel on pension changes.

The General Manager stated that the District can take the first step to find out what the District can do. Whether the District should make pension changes is another matter.

Director Opel requested that the minutes have a full reflection of the gravity of the potential risk of the pension plan.

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Gail Egan concluded, “the auditor’s job also is to look at the financial statements and question whether or not you have a growing concern. That is an audit step that we would do on every single audit. That the culmination, the last step is to look at the account, once you have everything classified, and we have current assets over current liabilities, which is an indication that we still do not have a liquidity problem.”

Director Opel asked for clarification about CalTrust and sensitivity to rate fluctuations and the value of the bonds.

Gail Egan replied, “On the notes to the financial statements on page 17 [Item 3 – page 19], the middle paragraph discusses CalTrust and what the composition of the securities in CalTrust are. And, the whole point of having gone to CalTrust was to, our understanding, the District went to CalTrust looking for safety and security, in yield, above what was in LAIF. Because, when this District went into CalTrust, there was rumor that the State of California was going to dip into funds that were held at LAIF. And, it was a precaution. I thought it was prudent of the Board to pull money out of LAIF, because everything that was being said at the state level, was like ‘Can they do that?’ Nobody ever knew or thought that they would ever touch LAIF money. Then, I think Mr. Matthews was tasked with the job of finding something safe and yield friendly as LAIF but was clearly District funds.”

The General Manager added, “Yes, I think that’s the characterization. And, of course, the Board can give me additional direction. But, I think Gail has summarized what the decision was at the time. And, I still think it’s the right decision.” He concluded, “the Board at any time can review our investment policy and if the Board would like to change that, then we can transfer funds, either back into LAIF or into other approved investments.”

It was motioned/seconded/carried unanimously-(Opel/Eldridge-5/0).

“That the Board approve publishing the Auditor’s Report as presented, with the exception of the corrections identified in the discussion.”

The Board thanked the auditors, and the auditors left the meeting.

6. GENERAL MANAGER’S REPORT: The General Manager and Board reviewed the report.

I.A. Delinquent Accounts: Director Griffith asked if the 1 shut off was a carry-over from previous months and in what Division. The General Manager said it was the same account, in Division 3.

II.C. Water Main Improvement Project: The kickoff meeting with the design firm was held at the office and at the project location. Construction will likely begin next year, after the rainy season.

II.D. House Tunnel: The General Manager and Facilities Maintenance Worker inspected the pipeline, fixed the obvious break, but found another leak in the pipeline. Staff is currently assessing whether or not staff can repair this leak or will need outside contractor.

III.A. Water Leak/Water Waste/Water Quality/Customer Contact: The Chair asked about the procedure when there is a leak suspected at a customer’s house. The Office Manager stated that in October of 2016, the District started using the information gathered from the monthly meter readings. When water flows through the meter for a continuous 24 hours or more, the account shows up on a leak report. The list of accounts is immediately reviewed for any high usage and phone calls are made to reach the customer. The office also sends them a letter

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about the potential leak. Accounts on the list whose usage is in the normal range are also sent a letter. The processing time is 1 to 2 days. Customers who are called or who receive the letter often contact the office to request that their meter be checked, especially if they think they have found the leak and repaired it. Then, the office schedules a time for the facilities operator to go to the customer's house. Each month, the office staff does everything we can so that a customer is not surprised with a high water bill due to a leak. If it's a customer that we know is gone, then an extra effort is made to reach additional contacts.

The General Manager added that with any observable water, field staff take positive action to determine where the water is coming from and if necessary, shut off the meter. Those situations do not get a letter, they get a knock on the door, door hangers, phone calls, and/or emails. Neighbors also report leaks in the District. Ideally, we hope we catch leaks soon. Occasionally, the leak is in a remote location of the yard, and the notice letter is the first indication a customer has that there may be a leak.

Director Opel asked if the District has the capacity to watch the flow of the meter remotely. The General Manager said, "No, not remotely." For the District to monitor the data remotely, it would require a change to the meters and access to cellular towers. However, there are consumer devices that are compatible with our meters, self-installed, no plumbing and uses technology that transmits water usage to a hub, using wi-fi. It would be a huge capital expense to convert to a type of system that we control, but individual people who want real-time monitoring have that capability with our system. Director Johnson recommended that this type of device be shared in a newsletter. The device the General Manager is personally trying for his home is called Flume. More information can be found at Flumetech.com

Director Kilburn asked the staff to investigate a possible water leak on west end of Clarmeya, where water is running in the road. The leak may be on a property on Meyerloa. The General Manager said the staff will look for it.

III.B. Current and Completed Capital Improvement, Facilities Improvement, Maintenance and Repair Projects and Activities: The General Manager stated that he has revised this section to give the Board a clearer picture of the activities and projects in the District.

III.C.5 Replace 1996 Chevrolet and 1999 Ford pickups. Director Griffith asked if both the trucks were running. The General Manager stated that the '96 has been taken out of service. Director Griffith asked if the '96 will be sold and the General Manager said that he will try to sell it and get a fair price.

III.C.7 Test Advanced Water Meter Analytics. The General Manager stated that his plan is to get a small number of the devices, such as the Flume mentioned earlier, test them and make sure the cellular reception is sufficient in various parts of the District.

The Chair thanked the General Manager for the information provided.

7. WATER MAIN IMPROVEMENT PROJECTS: The General Manager reviewed the Civiltec Engineering proposal for preparation of plans and specifications and bidding documents for the Brown/Glen Replacement Pipeline Project. He stated that as with all proposals, the actual billing will be based upon time spent on the project. The cover letter described the tasks that will be provided and the scope of work. Internally, the project has been divided into 3 phases. Regardless of the engineering, it does not obligate the District to construct any portion of it.

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The General Manager recommended that the Board approve engineering for phases 1 and 2. The General Manager estimated the construction costs for all 3 phases is about 1 million dollars based on the 2018 estimate. If the District only does phase 1 and 2, the construction cost will be much less.

It was motioned/seconded/carried unanimously-(Opel/Griffith-5/0)

“That the Board accept the Civiltec Engineering proposal dated May 24, 2019, for Engineering Design Services for phases 1 and 2 of the Brown/Glen Replacement Pipeline Project.”

8. DIRECTOR REPORTS AND/OR COMMENTS: There were no reports and no comments.

9. CALENDAR: The next regular meeting will be at 3:00 p.m. on Tuesday, July 16, 2019. The Chair, Gordon Johnson, said he will be unavailable for the next meeting in July.

10. ADJOURNMENT: The meeting was adjourned at 4:30 p.m.

Respectfully submitted by,



Bernadette C. Allen
Board Secretary

Kinneloa Irrigation District
Income Statement for the Six Months Ending June 30, 2019

	Current Month Actual	Current Month Budget	Current Month Variance	Year to Date Actual	Year to Date Budget	Year to Date Variance
Revenues						
4000 Water Sales	144,118.94	145,000.00	(881.06)	640,728.37	711,000.00	(70,271.63)
4015 Wholesale Water Sales	0.00	0.00	0.00	27,003.03	0.00	27,003.03
4020 Service/Installation Charges	451.74	833.33	(381.59)	5,934.85	4,999.98	934.87
4035 Interest-Reserve Fund	3,306.82	1,250.00	2,056.82	26,131.83	7,500.00	18,631.83
4070 Misc. Income	0.00	0.00	0.00	5,969.27	0.00	5,969.27
Total Revenues	147,877.50	147,083.33	794.17	705,767.35	723,499.98	(17,732.63)
Expenses						
5005 Electricity	13,280.40	10,000.00	3,280.40	48,725.72	58,000.00	(9,274.28)
5010 Maintenance/Repair Supplies	1,999.83	2,083.33	(83.50)	21,784.26	12,499.98	9,284.28
5011 Material and Labor for Install	0.00	833.33	(833.33)	0.00	4,999.98	(4,999.98)
5012 Safety Equipment	63.30	133.33	(70.03)	1,302.91	799.98	502.93
5015 Operations Labor	14,639.92	16,533.33	(1,893.41)	93,713.75	99,199.98	(5,486.23)
5016 Operations OT	598.56	750.00	(151.44)	8,296.96	4,500.00	3,796.96
5020 Stand-by Compensation	900.00	912.50	(12.50)	5,100.00	5,475.00	(375.00)
5022 Training/Certification	0.00	133.33	(133.33)	140.00	799.98	(659.98)
5025 Water Treatment/Analysis	3,032.78	1,833.33	1,199.45	11,102.36	10,999.98	102.38
5030 Maintenance/Repair Contractors	4,877.18	10,416.67	(5,539.49)	81,707.24	62,500.02	19,207.22
5034 Equipment Maintenance	544.60	1,041.67	(497.07)	11,024.03	6,250.02	4,774.01
5035 Vehicle Maintenance	1,553.16	833.33	719.83	5,028.88	4,999.98	28.90
5036 Fuel	1,085.42	1,250.00	(164.58)	7,966.13	7,500.00	466.13
5045 Insurance-Workers Compensation	4,812.74	2,670.00	2,142.74	14,363.70	6,670.00	7,693.70
5046 Insurance-Liability	1,211.17	1,333.33	(122.16)	7,267.02	7,999.98	(732.96)
5048 Insurance-Property	0.00	208.33	(208.33)	433.50	1,249.98	(816.48)
5049 Insurance-Medical	7,374.80	6,375.00	999.80	39,827.94	38,250.00	1,577.94
6000 Engineering Services	(220.00)	3,958.33	(4,178.33)	10,911.50	23,749.98	(12,838.48)
6005 Watermaster Services	880.87	1,000.00	(119.13)	5,285.02	6,000.00	(714.98)
6015 Administrative Salary	11,489.02	12,333.33	(844.31)	68,934.12	73,999.98	(5,065.86)
6017 Administrative Travel	242.96	250.00	(7.04)	582.78	1,500.00	(917.22)
6020 Board Compensation	400.00	466.67	(66.67)	2,500.00	2,800.02	(300.02)
6021 Administrative & Board Expenses	0.00	83.33	(83.33)	0.00	499.98	(499.98)
6024 Customer/Public Info. Prog.	0.00	166.67	(166.67)	0.00	1,000.02	(1,000.02)
6025 PERS - KID	2,528.26	3,000.00	(471.74)	14,848.63	18,000.00	(3,151.37)
6030 Social Security - KID	2,175.34	2,416.67	(241.33)	13,210.97	14,500.02	(1,289.05)
6031 Medicare - KID	508.76	516.67	(7.91)	3,089.73	3,100.02	(10.29)
6035 Office/Computer Supplies	1,222.72	583.33	639.39	4,444.53	3,499.98	944.55
6036 Postage/Delivery	330.00	416.67	(86.67)	1,933.84	2,500.02	(566.18)
6040 Professional Dues	1,153.40	1,000.00	153.40	7,060.00	6,000.00	1,060.00
6045 Legal Services	1,497.56	1,250.00	247.56	4,756.97	7,500.00	(2,743.03)
6050 Telephone	361.70	375.00	(13.30)	2,171.94	2,250.00	(78.06)
6051 Mobile Telephone	41.84	125.00	(83.16)	607.05	750.00	(142.95)
6052 Pagers	34.51	41.67	(7.16)	243.35	250.02	(6.67)
6053 Internet Service	59.99	83.33	(23.34)	383.82	499.98	(116.16)
6059 Computer Software Maintenance	1,184.99	1,000.00	184.99	3,836.22	6,000.00	(2,163.78)

Kinneloa Irrigation District
Income Statement for the Six Months Ending June 30, 2019

	Current Month Actual	Current Month Budget	Current Month Variance	Year to Date Actual	Year to Date Budget	Year to Date Variance
6061 Office Equipment Maintenance	0.00	83.33	(83.33)	361.34	499.98	(138.64)
6065 Accounting Services	6,400.00	7,000.00	(600.00)	6,400.00	7,000.00	(600.00)
6070 Office & Accounting Labor	8,000.00	8,045.83	(45.83)	39,398.25	48,274.98	(8,876.73)
6075 Professional/Contract Services	2,394.17	2,333.33	60.84	17,920.49	13,999.98	3,920.51
6080 Administrative Fees	795.83	750.00	45.83	4,687.87	4,500.00	187.87
6081 Permits/Fees	310.31	1,250.00	(939.69)	2,512.95	7,500.00	(4,987.05)
6086 Taxes - Sales	38.90	500.00	(461.10)	38.90	500.00	(461.10)
6088 Interest Expense	0.00	0.00	0.00	33,914.74	33,915.00	(0.26)
6120 Bank Service Charges	631.31	541.67	89.64	3,399.29	3,250.02	149.27
Total Expenses	98,436.30	106,911.64	(8,475.34)	611,218.70	626,534.84	(15,316.14)
Net Income	49,441.20	40,171.69	9,269.51	94,548.65	96,965.14	(2,416.49)
Other Expenditures						
1511 WaterTreatment Plant	0.00	0.00	0.00	1,750.80	2,000.00	(249.20)
1527 SCADA Equipment	0.00	0.00	0.00	42,260.42	51,000.00	(8,739.58)
2400 Installment Purchase Agreement	0.00	0.00	0.00	66,186.24	66,186.00	0.24
Total Other Expenditures	0.00	0.00	0.00	110,197.46	119,186.00	(8,988.54)
Total Increase or (Drawdown)	49,441.20	40,171.69	9,269.51	(15,648.81)	(22,220.86)	6,572.05

Kinneloa Irrigation District Balance Sheet as of June 30, 2019

ASSETS

Current Assets

1010	Checking-Wells Fargo Bank	\$ 255,537.24	
1012	Reserve Fund-LAIF	124,061.57	
1014	Reserve Fund-CalTRUST	1,700,781.39	
1015	Unrealized Gain(Loss)-CalTRUST	(12,034.14)	
1016	Accrued Interest-LAIF	788.54	
1100	Accts. Receivable-Water Sales	33,762.84	
1190	Allowance for Bad Debts	(771.48)	
1200	Inventory	20,000.00	
1340	Accrued Water Sales	145,801.25	
1350	Prepaid Insurance	4,081.97	
1360	Prepaid Expenses	15,502.80	
	Total Current Assets		2,287,511.98

Property and Equipment

1501	Water Rights	52,060.41	
1503	Land Sites	96,700.08	
1504	Water Mains	3,584,517.77	
1505	Water Tunnels	729,074.60	
1506	K-3 Well	89,543.06	
1507	Improvement District #1	602,778.12	
1508	Mountain Property	6,620.00	
1509	Wilcox Well/Wilcox Booster	94,030.98	
1510	Interconnections	14,203.27	
1511	Water Treatment Plant	189,139.08	
1512	Water Meters	104,486.33	
1513	Electrical/Electronic Equip.	256,918.72	
1514	Computer/Office Equipment	75,205.63	
1515	Vehicles & Portable Equipment	242,548.91	
1516	Water Company Facilities	70,422.20	
1517	KID Office	54,741.36	
1518	Shaw Ranch	280,789.92	
1519	Dove Creek Project	487,383.87	
1520	Glen Reservoir/Booster	24,190.86	
1521	Kinneloa Ridge Project	690,492.58	
1522	Eucalyptus Booster Station	532,342.43	
1526	Vosburg Booster	1,647,215.66	
1527	SCADA Equipment	350,158.34	
1528	Tanks and Reservoirs	119,491.90	
1529	Holly Tanks	181,113.76	
1530	Tools	6,273.13	
1600	Accum. Depreciation	(4,926,201.76)	
	Total Property and Equipment		5,656,241.21

Other Assets

1901	PERS-Deferred Outflows	99,141.00	
	Total Assets		\$ 8,042,894.19

Kinneloa Irrigation District
Balance Sheet as of June 30, 2019

LIABILITIES AND CAPITAL

Current Liabilities

2000	Accounts Payable	\$ 45,451.96	
2272	Job Deposits	900.00	
2275	Deposits-Water Customers	255.02	
2290	Accrued Vacation	19,935.60	
	Total Current Liabilities		66,542.58

Long-Term Liabilities

2400	Installment Purchase Agreement	1,802,291.11	
2801	PERS- Net Liability	264,534.46	
2901	PERS- Deferred Inflows	36,648.00	
	Total Long-Term Liabilities		2,103,473.57
	Total Liabilities		2,170,016.15

Capital

3040	Fund Balance	5,778,329.39	
	Net Income	94,548.65	
	Total Capital		5,872,878.04
	Total Liabilities & Capital		\$ 8,042,894.19

Kinneloa Irrigation District
Statement of Cash Flow
For the Six Months Ended June 30, 2019

	Current Month	Year to Date
Cash Flows from Operating Activities		
Net Income	\$ 49,441.20	\$ 94,548.65
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
1100 Accts. Receivable-Water Sales	(1,921.27)	16,278.33
1101 Accts. Receiv.-Service Charges	0.00	263.84
1340 Accrued Water Sales	(38,877.13)	(11,138.97)
1350 Prepaid Insurance	(850.84)	5,638.51
1360 Prepaid Expenses	2,248.52	5,942.02
2000 Accounts Payable	16,850.29	10,207.66
	(22,550.43)	27,191.39
Net Cash Provided by Operations	26,890.77	121,740.04
 Cash Flows from Investing Activities		
<i>Used for</i>		
1511 WaterTreatment Plant	0.00	(1,750.80)
1527 SCADA Equipment	0.00	(42,265.68)
	0.00	(44,016.48)
Net Cash Used in Investing	0.00	(44,016.48)
 Cash Flows from Financing Activities		
<i>Proceeds from</i>		
<i>Used for</i>		
2400 Installment Purchase Agreement	0.00	(66,186.24)
2801 PERS- Net Liability	(1,132.38)	(6,794.28)
	(1,132.38)	(72,980.52)
Net Cash Used in Financing	(1,132.38)	(72,980.52)
Net Increase (Decrease) in Cash	\$ 25,758.39	\$ 4,743.04
 Summary		
Cash Balance at End of Period	\$ 2,069,134.60	\$ 2,069,134.60
Cash Balance at Beg. of Period	(2,043,376.21)	(2,064,386.30)
	(2,043,376.21)	(2,064,386.30)
Net Increase (Decrease) in Cash	\$ 25,758.39	\$ 4,748.30

Kinneloa Irrigation District
Check Register
For the Period from June 1, 2019 to June 30, 2019

Date	Check #	Payee	Amount	Description
6/11/19	EFT3910	Arco Gaspro Plus	1,085.42	fuel for trucks
6/11/19	EFT3911	CA Public Employees Ret. Sys.	5,282.13	CalPERS May KID & employee contributions
6/11/19	EFT3912	CA Public Employees Ret. Sys.	1,132.38	CalPERS unfunded liability - monthly payment
6/11/19	EFT3913	Century Business Solutions	189.87	credit card processing fees
6/11/19	EFT3914	Century Business Solutions	15.00	banking service fee
6/11/19	EFT3915	Pasadena Municipal Services	1,523.54	electricity for Wilcox Well
6/11/19	EFT3916	Southern California Edison Co.	3,907.16	electricity 8 sites April, 3 sites March
6/11/19	EFT3917	Charter Communications	346.69	phones and internet
6/11/19	EFT3918	Board of Equalization	38.90	use tax 2018
6/11/19	EFT3919	VeriCheck, Inc.	66.24	echeck processing fees
6/11/19	9116	ACWA/JPIA	8,316.32	employee health benefits
6/11/19	9117	Bernadette Allen	30.62	mileage reimbursement
6/11/19	9118	AT&T Mobility	41.84	FirstNet wireless service
6/11/19	9119	BrightView Landscape Services	1,490.00	landscape maintenance service
6/11/19	9120	Griswold Industries	5,224.51	K-3 & Sage Cal-Val maintenance
6/11/19	9121	Dig Safe Board	16.81	California State Fee for Regulatory Costs
6/11/19	9122	Eurofins Eaton Analytical, Inc.	132.00	water sample analysis
6/11/19	9123	EVERSOFT, INC.	571.21	water softener unit maintenance service for 3 sites
6/11/19	9124	Foothill Municipal Water District	795.83	administrative fee
6/11/19	9125	Lagerlof,Senecal,Gosney&Kruse	569.18	PWAG Emergency Prep Program Jan/Feb costs
6/11/19	9126	Matt Chlor Inc.	1,990.00	Brown Reservoir chlorinated
6/11/19	9127	McMaster Carr	846.58	Enclosure-cooling fan, electrical-insulating tools
6/11/19	9128	SA Associates	3,131.50	System Maps Upgrades engineering services
6/11/19	9129	Ultimate Cleaning Solutions, Inc.	75.00	janitorial services
6/11/19	9130	Underground Service Alert	77.65	digalert
6/11/19	9131	Western Water Works	279.05	maintenance supplies
6/15/19	EFT3920	Bernadette C. Allen	1,378.39	salary
6/15/19	EFT3921	Joel D. Bundy	1,407.97	salary
6/15/19	EFT3922	Christopher A. Burt	2,580.27	salary
6/15/19	EFT3923	Brian L. Fry	1,757.84	salary
6/15/19	EFT3924	Melvin L. Matthews	3,851.80	salary
6/15/19	EFT3925	Juan R. Tello	1,360.38	salary
6/15/19	EFT3926	Christopher A. Burt	150.00	salary
6/15/19	EFT3927	Automatic Data Processing, Inc.	5,096.15	employee taxes and withholdings
6/18/19	EFT3928	Automatic Data Processing, Inc.	92.41	payroll processing fee
6/18/19	EFT3929	American Messaging Services	34.51	pager service
6/18/19	9132	AmeriPride Services	69.01	shop rag service
6/18/19	9133	Generator Services Co.	544.60	troubleshoot Wilcox Res. voltage regulator
6/18/19	9134	Lagerlof,Senecal,Gosney&Kruse	1,497.56	PWAG general matters Feb-May
6/18/19	9135	Utility Service Co., Inc.	4,877.18	tank maintenance agreement

Kinneloa Irrigation District
Check Register
For the Period from June 1, 2019 to June 30, 2019

Date	Check #	Payee	Amount	Description
6/21/19	8831V	Civiltec Engineering, Inc.	-220.00	Fire Flow invoicing error/ no payment due
6/28/19	EFT3930	Athens Services	215.69	trash pickup
6/28/19	EFT3931	Umpqua Bank	1,099.93	credit card payment - see attached detail
6/30/19	EFT3932	Bernadette C. Allen	1,378.40	salary
6/30/19	EFT3933	Joel D. Bundy	1,407.97	salary
6/30/19	EFT3934	Christopher A. Burt	2,353.17	salary
6/30/19	EFT3935	Timothy J. Eldridge	92.35	salary
6/30/19	EFT3936	Brian L. Fry	1,793.91	salary
6/30/19	EFT3937	Francis J. Griffith	92.35	salary
6/30/19	EFT3938	Gerrie G. Kilburn	92.35	salary
6/30/19	EFT3939	Melvin L. Matthews	3,851.78	salary
6/30/19	EFT3940	Arthur W. Opel	92.35	salary
6/30/19	EFT3941	Juan R. Tello	1,471.01	salary
6/30/19	EFT3942	Christopher A. Burt	150.00	salary
6/30/19	EFT3943	Automatic Data Processing, Inc.	5,132.33	employee taxes and withholdings
6/30/19	EFT3944	Automatic Data Processing, Inc.	83.42	payroll processing fee
Total			<u>80,960.51</u>	

Credit Card Detail Umpqua Bank

May 2019

(Expenses incurred/billed in May and due/paid in June)

Acct. No.	Account Description	Additional Description	MLM	CAB	BLF	JDB	TOTAL
1514	Computer/Office Equip.						\$0.00
5010	Maintenance Supplies	broom, shovel			\$31.12		\$31.12
5012	Safety Equipment	safety glasses			\$8.82		\$8.82
5022	Training/Certification						\$0.00
5025	Water Treatment/Analysis						\$0.00
5035	Vehicle Maintenance	motor oil, grease, valve caps; motor oil, '99 tailgate clip-link		\$89.17	\$5.13		\$94.30
5036	Fuel						\$0.00
6017	Adm. Travel						\$0.00
6021	Adm. & Bd. Exp.						\$0.00
6035	Office/Computer Supplies	pre-inked dater, pens, paper towels, snacks, perforated paper				\$199.35	\$199.35
6036	Postage/Delivery	stamps				\$330.00	\$330.00
6040	Professional Dues						\$0.00
6050	Telephone	answering service	\$75.00				\$75.00
6051	Mobile Phone						\$0.00
6053	Internet Service						\$0.00
6059	Computer/Software Maint.						\$0.00
6061	Office Equipment Maint.	inkjet printer	\$361.34				\$361.34
6075	Outside Services						\$0.00
6081	Permits/Fees						\$0.00
TOTAL			\$436.34	\$89.17	\$45.07	\$529.35	\$1,099.93

General Manager's Report for the Board of Directors Meeting on July 16, 2019

I. Customer Account Information and Internet Usage

A. Delinquent Accounts –

- 18 accounts received past-due notice
- 18 accounts received late charges in the total amount of \$291.74
- 4 accounts received door hanger shut off notice
- 0 account was shut off for non-payment
- 0 account remain shut off for non-payment

B. Aged Receivables –

Month	Current	30 days	60 days	90 days or greater	Total
January	\$19,576.69	\$3,491.39	\$0.00	\$0.00	\$23,068.08
February	\$32,588.72	\$4,502.38	\$381.98	\$0.00	\$37,473.08
March	\$18,623.41	\$2,023.53	\$64.12	\$59.92	\$20,770.98
April	\$35,258.88	\$1,661.07	\$247.83	\$124.04	\$37,291.82
May	\$29,629.02	\$1,897.19	\$98.82	\$216.54	\$31,841.57
June	\$30,403.95	\$3,358.89	\$0.00	\$0.00	\$33,762.84
July					
August					
September					
October					
November					
December					

C. Internet Usage –

Month	Users	Page Views	Online Payments	Online Amount
January	227	657	76	\$19,881.25
February	171	414	58	\$10,629.13
March	226	457	77	\$12,350.13
April	196	483	61	\$9,696.11
May	223	517	66	\$14,734.69
June	231	465	64	\$12,255.22
July				
August				
September				
October				
November				
December				
Year to Date	1,274	2,993	402	\$79,546.53

II. General Manager's Projects and Activities

- A. Water Main Improvement Projects** – The kickoff meeting for the East Tank Pipeline project design was held and design is in progress. The kickoff meeting proposal for the Brown/Glen replacement pipeline design is being scheduled for later in July.
- B. House Tunnel** – Juan and I observed and repaired the broken pipeline at one location. The tunnel flow is normal but a second break further downstream was then observed. The repair will be more difficult because of the location and the repair method is still under consideration.
- C. 2020 Budget** – Budget documents are being prepared.
- D. Activities/Meetings/Webinars/Conferences**

Subject or Organization	Location	Start	End	Purpose/Notes/Action/Benefit
Staff Meetings	Office	Mondays 9:00 AM	Mondays 10:00 AM	<ul style="list-style-type: none"> • Tasks for the week • Projects -- current and future • Operations update • Customer service update • Operations update • GM update • Safety topic
RBMB Pumping & Storage Committee	Azusa	Tue 6/4/2019 12:00 PM	Tue 6/4/2019 2:00 PM	<ul style="list-style-type: none"> • Pasadena subarea pumping plan
House Tunnel Inspection		Wed 6/5/2019 1:00 PM	Wed 6/5/2019 3:00 PM	<ul style="list-style-type: none"> • Clear trail and inspect pipeline
Region 8 Event Planning Call	Telephone	Fri 6/14/2019 1:30 PM	Fri 6/14/2019 2:00 PM	<ul style="list-style-type: none"> • September Region Event
FMWD Finance Committee Meeting	La Cañada	Mon 6/17/2019 2:30 PM	Mon 6/17/2019 3:00 PM	<ul style="list-style-type: none"> • 2019-2020 Budget
FMWD	La Cañada	Mon 6/17/2019 3:00 PM	Mon 6/17/2019 5:00 PM	<ul style="list-style-type: none"> • Regular board meeting
KID	Office	Tue 6/18/2019 3:00 PM	Tue 6/18/2019 5:00 PM	<ul style="list-style-type: none"> • Regular board meeting
Metropolitan Water District	Carson	Thu 6/20/2019 10:00 AM	Thu 6/20/2019 12:30 PM	<ul style="list-style-type: none"> • Tour of the Regional Recycled Water Advanced Purification Center B)

III. System and Facility Activities and Incident Reports

A. Water Leak/Water Waste/Water Quality/Customer Contact

Location	Type	Date	Description
Fairpoint Street	Water Leak	6/11/2019	Customer requested leak check after replacing leaking water heater. No leak was observed.
Villa Highlands Drive	Customer Contact	6/18/2019	Customer requested payment arrangement to avoid water shutoff.

B. Current and Completed Capital Improvement, Facilities Improvement, Maintenance and Repair Projects and Activities

1. Routine daily and monthly activities
 - a. Operator training
 - b. Meter and transmitter maintenance and replacement
 - c. Water samples
 - d. Vehicle and equipment maintenance and testing
 - e. Facility cleanup
 - f. Chlorine generator maintenance
 - g. Meter reading
 - h. Customer service calls

2. Facility and Equipment Repair and Maintenance for June
 - a. Repair leak in House Tunnel pipeline (another leak still needs to be repaired)
 - b. Repair leak in K-3 chlorination equipment
 - c. Brush clearance at Wilcox Reservoir

3. Completed Projects
 - a. Inspection and cleanout of Eucalyptus and Wilcox Reservoirs
 - b. Repair leaks in Brown Reservoir
 - c. Replace 17 obsolete SCADA radios at all sites and install radio diagnostic program
 - d. Replace Glen Reservoir chlorination equipment

C. Future Capital Improvement Projects, Facilities Improvement, Maintenance and Repair Projects

1. Install additional shelving, add anti-slip covers to stairs and other safety items at Vosburg Warehouse
2. Replace chlorination equipment at Eucalyptus Reservoir
3. Install solar panel, battery and charger for utility power backup at Transfer Valve
4. Remove, replace and widen Office driveway and expand parking area
5. Replace 1996 Chevrolet and 1999 Ford pickups with new pickups and accessory equipment
6. Replace 50 hp booster (motor and pump) and sandblast and paint pump stand at Wilcox Reservoir
7. Test Advanced Water Meter Analytics (Hardware/software for cellular data collection test)
8. Sierra Madre Villa and Villa Heights Pipeline Improvement Project (Design phase)
9. Brown/Glen Pipeline Improvement Project (Design phase)

IV. Water Supply Summary as of May for the Watermaster Year July 2018 through June 2019

Raymond Basin Groundwater (Acre Feet)		Kinneloa Irrigation District Water Tunnels (Acre Feet)	
Water Rights	516	Eucalyptus	4
Prior Year Carryover	52	Far Mesa	3
Less Temporary 30% Reduction in Water Rights	-155	Delores	3
Leases/Exchanges	207	House	0
Prior Year Spreading	65	Holly High/Low	5
Short Term Storage	145		
Current Year Spreading	0		
Total Allowable Extractions	830		
Less Water Extracted YTD This Watermaster Year	-586	Current Tunnel Monthly Production	15
Remaining Allowable Groundwater Extractions through June 2019	244	Remaining Estimated Tunnel Production through June 2019	30
Total Available Water Supply (Remaining Allowable Groundwater + Remaining Estimated Tunnel Production through June 2019)		274 Acre Feet	
Less Remaining Forecasted Retail Water Sales through June 2019		-85 Acre Feet	
Surplus Water through June 2019*		189 Acre Feet	

* This is the forecasted surplus water available for sale in the current year and/or carryover to the next Watermaster year which starts on July 1 subject to the carryover limits established by the Raymond Basin Management Board. Regarding the available surplus water, we will generally maximize the carryover to the next year and deliver the balance of the forecasted surplus water (if any) to the City of Pasadena. In the 2017-2018 year, 87 Acre-Feet were sold to the City, 52 Acre-Feet were carried over to 2018-2019 and 145 Acre-Feet were put into our short-term storage account. Although we may lease additional pumping rights from another agency with surplus pumping rights, this is not considered a guaranteed source of supply since it is subject to negotiation. In addition to the available water, the KID has 790 Acre Feet in a long-term storage account. Additions to long-term storage are no longer permitted but withdrawals can be made at any time to supplement allowable extractions. However, since long-term storage is considered by KID staff to be an emergency supply, we do not plan to use or sell this water now.

V. Information Items

- A. Water Samples and Test Results – See Attachment A
- B. Financial Statements and Independent Auditors’ Report for the Years Ended December 31, 2018 and 2017 – See separate bound report

Attachment A

Water Samples and Test Results

Sample Date	Source or Distribution	Lab	Description	# of tests	Results*	Maximum Contaminant Level* (MCL)
01/04/19	Source	Weck	Title 22 DEHP	5	ND or A	4ppb
01/04/19	Source	Weck	Title 22 nitrate	2	<MCL	10ppm
01/04/19	Source	Weck	Title 22 fluoride	5	1.1 - 2.7 ppm	3ppm
01/08/19	Distribution	Clinical	color, odor, turbidity	18	<MCL	15 units, 3 units, 5 units
01/08/19	Distribution	Clinical	fluoride	6	1.0 - 1.4 ppm	3ppm
01/08/19	Both	Eurofins	coliform, e. coli	72	ND or A	1 positive sample
01/22/19	Both	Eurofins	coliform, e. coli	64	ND or A	1 positive sample
01/22/19	Source	Eurofins	coliform, e. coli	8	ND or A	1 positive sample
02/06/19	Both	Eurofins	coliform, e. coli	72	ND or A	1 positive sample
02/06/19	Both	Eurofins	coliform, e. coli	8	ND or A	1 positive sample
02/07/19	Distribution	Clinical	color, odor, turbidity	18	<MCL	15 units, 3 units, 5 units
02/07/19	Both	Eurofins	coliform, e. coli	8	ND or A	1 positive sample
02/07/19	Both	Eurofins	coliform, e. coli	8	ND or A	1 positive sample
02/19/19	Both	Eurofins	coliform, e. coli	64	ND or A	1 positive sample
03/04/19	Both	Eurofins	coliform, e. coli	80	ND or A	1 positive sample
03/05/19	Distribution	Clinical	color, odor, turbidity	18	<MCL	15 units, 3 units, 5 units
03/06/19	Both	Eurofins	coliform, e. coli	16	ND or A	1 positive sample
03/07/19	Both	Eurofins	coliform, e. coli	16	ND or A	1 positive sample
03/19/19	Both	Eurofins	coliform, e. coli	64	ND or A	1 positive sample
04/02/19	Distribution	Clinical	color, odor, turbidity	18	<MCL	15 units, 3 units, 5 units
04/02/19	Distribution	Clinical	fluoride	6	1.2 - 1.6 ppm	3ppm
04/02/19	Both	Eurofins	coliform, e. coli	80	ND or A	1 positive sample
04/04/19	Source	Weck	Title 22 fluoride	3	1.1 - 2.6 ppm	3ppm
04/04/19	Source	Weck	Title 22 nitrate	2	<MCL	10ppm
04/04/19	Source	Weck	Title 22 1,2,3 TCP	4	ND	80ppb
04/15/19	Both	Eurofins	coliform, e. coli	64	ND or A	1 positive sample
05/08/19	Distribution	Clinical	color, odor, turbidity	18	<MCL	15 units, 3 units, 5 units
05/08/19	Both	Eurofins	coliform, e. coli	80	ND or A	1 positive sample
05/08/19	Distribution	Eurofins	coliform, e. coli	16	ND or A	1 positive sample
05/09/19	Distribution	Eurofins	coliform, e. coli	16	ND or A	1 positive sample
05/21/19	Both	Eurofins	coliform, e. coli	64	ND or A	1 positive sample
06/04/19	Distribution	Clinical	color, odor, turbidity	18	<MCL	15 units, 3 units, 5 units
06/04/19	Both	Eurofins	coliform, e. coli	80	ND or A	1 positive sample
06/18/19	Both	Eurofins	coliform, e. coli	64	ND or A	1 positive sample

Total samples to date: 1085

*ppm = parts-per-million, ppb = parts-per-billion, pCi/L = picocuries per liter, <MCL = less than Maximum

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**



**For the Years Ended
December 31, 2018 and 2017**

EGAN & EGAN
Certified Public Accountants

**KINNELOA IRRIGATION DISTRICT
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**

AND INDEPENDENT AUDITORS' REPORT

**KINNELOA IRRIGATION DISTRICT
INDEX TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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**KINNELOA IRRIGATION DISTRICT
BOARD OF DIRECTORS AND DISTRICT PERSONNEL
AS OF DECEMBER 31, 2018**

BOARD OF DIRECTORS

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

MANAGEMENT PERSONNEL

Melvin L. Matthews General Manager

OFFICE PERSONNEL

Joel Bundy Administrative Assistant

Donna Eggehorn Administrative Assistant

FIELD PERSONNEL

Chris Burt Senior Facilities Operator

Brian Fry Facilities Operator

Juan Tello Facilities Maintenance Worker

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

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, 2018. 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 3.3% to \$1,690,731 as compared to 2017 operating revenues of \$1,636,661. The increase is primarily the result of the rate increase in January 2018.

Total operating, maintenance, administrative and general expenses including depreciation decreased by 16% to \$1,263,701 as compared to \$1,505,483 in 2017. The net decrease is primarily due to the change of estimate due to GASB 68. 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 587 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, 2018 AND 2017**

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the year ended December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS		
Current assets	\$ 2,299,748	1,941,999
Capital assets, net	5,612,230	5,889,007
Deferred outflows of resources	99,141	21,181
Total assets and deferred outflows of resources	<u>\$ 8,011,119</u>	<u>7,852,187</u>
LIABILITIES AND DEFERRED INFLOWS		
Current liabilities	\$ 189,909	169,414
Noncurrent liabilities	2,006,232	2,200,456
Deferred inflows of resources	36,648	83,822
Total liabilities and deferred inflows of resources	<u>2,232,789</u>	<u>2,453,692</u>
NET POSITION		
Investment in capital assets	5,612,230	5,889,007
Unrestricted	166,100	(490,512)
Total net position	<u>5,778,330</u>	<u>5,398,495</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 8,011,119</u>	<u>7,852,187</u>

Capital and other assets – The change in capital and other assets is net of a decrease in capital and other assets less current year's depreciation of \$332,812.

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

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

CHANGES IN NET POSITION

	<u>2018</u>	<u>2017</u>
Total operating revenues	\$ 1,690,731	1,636,661
Total non-operating revenues	<u>24,095</u>	<u>16,953</u>
Total revenues	1,714,826	1,653,614
Total operating expenses	1,263,701	1,505,483
Total non-operating expenses	<u>71,290</u>	<u>75,916</u>
Total expenses	<u>1,334,991</u>	<u>1,581,399</u>
Change in net position	379,835	72,215
Net position, beginning of year	<u>5,398,495</u>	<u>5,326,280</u>
Net position, end of year	<u>\$ 5,778,330</u>	<u>5,398,495</u>

Revenues – Retail water sales by volume increased to 615 acre-feet as compared to 594 acre-feet in 2017 and the total operating revenue increased to \$1,690,731 from \$1,636,661 due to an increase of rates in January 2018 and the increased water sales.

The District also received \$36,703 in non-operating revenue from interest on its temporary investments and a refund from JPIA. The District's temporary investments at year end were \$2,063,236 and \$1,667,327 in 2018 and 2017, respectively. The District has identified \$4,212,000 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 increased by \$89,949 in 2018 as compared to 2017. This increase is due primarily to increases in operating payroll expenses. The District's administrative and general expenses decreased by \$316,975 due primarily to changes in estimate relating to GASB 68. A schedule of these expenses is provided on page 24.

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

BUDGET ANALYSIS AND VARIANCES

Revenue from water sales for 2018 was \$1,690,731 as compared to the budgeted amount of \$1,485,000 for retail and wholesale water sales. The budgeted revenue was based on the actual amount from the previous year, adjusted for rate changes and/or expected new service connections for the year. However, water usage by volume increased for 2018 despite a significant educational campaign on conservation measures. Therefore, the District's revenue was significantly higher in 2018. Total revenue for 2018 was \$1,714,826 as compared to the budgeted amount of \$1,495,000.

Overall, for 2018, the net operating income before depreciation was \$712,647, as compared to the budgeted amount of \$212,217. Capital and planned maintenance projects in the amount of \$56,035 were completed as compared to the budgeted amount of \$81,500. The cash reserve at year end was \$2,063,236 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 2018, the major projects and equipment purchases included water main and valve replacements, SCADA equipment and water meters.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At December 31, 2018 and 2017, the District had investments in land, water rights, buildings, wells and distribution systems, machinery and equipment as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 96,700	96,700
Water rights	52,060	52,060
Buildings, wells and distribution system	9,500,288	9,482,141
Machinery and equipment	<u>889,384</u>	<u>851,496</u>
Totals	<u>\$ 10,538,432</u>	<u>10,482,397</u>

**KINNELOA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

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 3.1% for the 12 months ended December 2018 and the current average rate for 2019 is 2.7%.

General economic conditions improved in 2018 and is expected to improve at a moderate pace in 2019. Although water service is considered a necessity, the continued efforts of our customers to increase water use efficiency consistent with the restrictions and regulations imposed by the State of California and the County of Los Angeles may cause a further reduction in volumetric sales. The increase in sales in 2018 was attributed to the drought in the first part of the year and the hot weather during the summer; however, normal rainfall returned in the last three months of the year and the annual rainfall in the 2018-2019 season was above average. The District anticipates that an increase in rates will probably be needed in future years to maintain water sales revenue.

In 2019, the District plans to continue capital improvement projects included in the District's Water Master Plan and planned maintenance projects using available cash reserves rather than using an installment purchase agreement or other financing.

To continue our high-priority time-critical capital improvement and planned maintenance projects, the Board of Directors approved a budget for 2019 that produces a net operating surplus near zero. However, favorable results to budget will allow additional projects to be completed.

The Board approved a 3% rate increase for 2019 to maintain the current level of water sales revenue in case there is a decline in volumetric sales or an inflationary increase in expenses. Wholesale water sales are budgeted in 2019 to offset any possible reduction in retail water sales.

Although weather will continue to play a significant role in determining retail water sales for 2019, 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 2019 and/or if there is a decline in retail sales due to greater conservation efforts. These factors when combined make it difficult to know the effect on the District's operations in 2019. Fortunately, the District has the flexibility to adjust expenditures for capital improvements and planned maintenance to meet the overall budget objectives for 2019.

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 AUDITOR'S 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, 2018 and 2017 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, 2018 and 2017, the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

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

Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 18, 2019 in our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Egan & Egan

June 18, 2019

**KINNELOA IRRIGATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 776,921	393,403
Cash, restricted as to use	1,286,315	1,273,924
Customer receivables	185,347	222,975
Prepaid expenses	31,165	31,697
Materials and supplies	<u>20,000</u>	<u>20,000</u>
Total current assets	2,299,748	1,941,999
Capital assets, net of accumulated depreciation	5,612,230	5,889,007
Deferred outflows of resources		
Deferred amounts from pension plan	<u>99,141</u>	<u>21,181</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 \$ <u>8,011,119</u>	 <u>7,852,187</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current liabilities		
Current portion of installment purchase contract	\$ 133,574	128,854
Accounts payable and accrued expenses	35,244	25,924
Accrued payroll and payroll taxes	19,936	14,381
Customer deposits	<u>1,155</u>	<u>255</u>
Total current liabilities	189,909	169,414
Installment purchase contract, net of current portion	1,734,903	1,868,536
Net pension liability	<u>271,329</u>	<u>331,920</u>
Total liabilities	2,196,141	2,369,870
 Deferred inflows of resources		
Deferred amounts from pension plan	36,648	83,822
 Net position		
Invested in capital assets, net of related debt	5,612,230	5,889,007
Unrestricted	<u>166,100</u>	<u>(490,512)</u>
Total net position	<u>5,778,330</u>	<u>5,398,495</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	 \$ <u>8,011,119</u>	 <u>7,852,187</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues		
Water sales and service fees	\$ <u>1,690,731</u>	<u>1,636,661</u>
Operating expenses		
Operating and maintenance	700,293	610,344
Administration and general	230,596	547,571
Depreciation	<u>332,812</u>	<u>347,568</u>
Total operating expenses	<u>1,263,701</u>	<u>1,505,483</u>
Operating income	<u>427,030</u>	<u>131,178</u>
Non-operating revenue and expense		
Interest	25,858	13,010
Interest expense	(71,290)	(75,916)
Unrealized loss	(12,608)	-
Other income	<u>10,845</u>	<u>3,943</u>
Net non-operating revenue and expense	<u>(47,195)</u>	<u>(58,963)</u>
Change in net position	379,835	72,215
Net position, beginning of year	<u>5,398,495</u>	<u>5,326,280</u>
Net position, end of year	<u>\$ <u>5,778,330</u></u>	<u><u>5,398,495</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, 2018 AND 2017**

Cash flows from operating activities:	<u>2018</u>	<u>2017</u>
Cash received from customers	\$ 1,728,359	1,558,996
Cash payments to employees for services	(393,240)	(350,511)
Cash payments for services and goods	<u>(522,242)</u>	<u>(713,942)</u>
Net cash provided by operating activities	<u>812,877</u>	<u>494,543</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(56,035)	(448,164)
Net cash used (provided) for pension liabilities	(185,725)	104,474
Principal paid on installment purchase agreement	(128,913)	(124,285)
Customer deposits	900	(3,645)
Other non-operating loss, net	(1,763)	3,943
Interest expense paid	<u>(71,290)</u>	<u>(75,916)</u>
Cash used by capital and related financing activities	<u>(442,826)</u>	<u>(543,593)</u>
Cash flows from investing activities:		
Interest received	<u>25,858</u>	<u>13,010</u>
Net increase (decrease) in cash and cash equivalents	395,909	(36,040)
Cash and temporary investments, beginning of the year	<u>1,667,327</u>	<u>1,703,367</u>
Cash and temporary investments, end of the year	<u>\$ 2,063,236</u>	<u>1,667,327</u>
SUMMARY OF BALANCE SHEET CASH and CASH EQUIVALENTS		
Cash	\$ 776,921	393,403
Temporary investments, restricted as to use	<u>1,286,315</u>	<u>1,273,924</u>
Total cash	<u>\$ 2,063,236</u>	<u>1,667,327</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash operating activities:		
Operating income	\$ 427,030	224,133
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	332,812	347,568
Increase in receivables	37,628	(77,665)
(Increase) decrease in prepaid expenses	532	(5,953)
Increase (decrease) in accounts payable and accrued expenses	<u>14,875</u>	<u>6,470</u>
Net cash provided by operating activities	<u>\$ 812,877</u>	<u>494,553</u>

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District is governed by an elected Board of Directors. At December 31, 2018, the Board of Directors were as follows:

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

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

a. Basis of Presentation and Measurement Focus

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

Operating revenues and expenses are generated and incurred through the water sales activities to the District's customers. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

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

b. Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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

c. Net Position

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

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

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

d. Utility Plant

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

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

e. Restricted Assets

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

f. Uncollectible Accounts

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

g. Cash and Cash Equivalents

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

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

h. Materials and Supplies

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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

i. Concentration of Credit Risk

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

j. Estimates

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

k. Budgetary Process

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

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

l. Income Taxes

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

m. Compensated Absences

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

n. Operating Revenues and Expenses

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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

o. Property taxes

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

p. Subsequent Events

The District has evaluated subsequent events through the date at which the financial statements were available to be issued, which was June 18, 2019. No material subsequent events required disclosure.

NOTE 2. CASH AND CASH EQUIVALENTS

At December 31, 2018 and 2017 cash and cash equivalents consist of:

	<u>2018</u>	<u>2017</u>
Insured with financial institutions	\$ 776,921	393,403
Local Agency Investment Fund ("LAIF")	122,548	120,494
Uninsured and uncollateralized	<u>1,163,767</u>	<u>1,153,430</u>
	<u>\$ 2,063,236</u>	<u>1,667,327</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, 2018 AND 2017**

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, 2018 and 2017 was as follows:

	2018			
	Balance January 1	Additions	Transfers	Balance December 31
Land	\$ 96,700			96,700
Water rights	52,060			52,060
Buildings, wells and distribution system	9,482,141	18,147		9,500,288
Machinery and equipment	851,496	37,888		889,384
	10,482,397	56,035		10,538,432
Less accumulated	(4,593,390)	(332,812)		(4,926,202)
Total capital assets	\$ 5,889,007	(276,777)		5,612,230

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3. CAPITAL ASSETS, continued

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

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
2019	\$	133,574	66,628	200,202
2020		138,467	61,735	200,202
2021		143,538	56,664	200,202
2022		148,796	51,406	200,202
Thereafter		1,301,102	197,309	1,498,411
	\$	1,865,477	433,742	2,299,219

NOTE 5. PENSION PLAN

Plan Description

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

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5. PENSION PLAN, continued

All full time employees are eligible to participate as members of PERS. Benefits vest after five years of service. District employees are eligible to retire upon attaining age 60. Annual retirement benefits are determined based upon the age at retirement, the length of membership service and the amount of earnings based upon the highest twelve consecutive months' average.

Benefits Provided

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

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

Contributions

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

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

As of December 31, 2018 the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ <u><u>271,329</u></u>

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5. PENSION PLAN, continued

The District's net pension liability for the Plan is measure as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2018.

The District's proportionate share of the net pension liability for the Plan as of the reporting period ending December 31, 2018 and 2017 was as follows:

	<u>Miscellaneous</u>
Proportion - December 31, 2017	0.00692%
Proportion - December 31, 2018	0.00720%
Change - Increase	0.00028%

For the year ended December 31, 2018, the District recognized pension expense of \$85,463. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 10,410	3,543
Change in assumptions	30,932	7,580
Change in employer's proportion and differences between the District's contributions and the District's proportionate share of contributions	56,457	25,525
Differences between projected and actual earnings on Plan investments	1,342	
	\$ 99,141	36,648

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

<u>Fiscal Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 57,032
2020	14,784
2021	(6,883)
2022	(2,440)
2023	-
Thereafter	-
	\$ 62,493

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5. PENSION PLAN, continued

Actuarial Assumptions and Methods

The actuarial valuation is computed using the entry age normal actuarial cost method. The actuarial assumptions include: (a) an investment rate of return of 7.15% compounded annually, (b) projected annual salary increases that vary by duration of service, and (c) payroll cost-of-living adjustments of 2.75%.new The rates used in (a) and (b) are compounded annually at 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a specific period that depends upon the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of projected payroll over a closed 20-year period. The District does not have an unfunded liability.

Discount Rate

CalPERS used a 7.15% discount rate to determine the total pension liability for the year ended December 31, 2018 and 2017. The District relies upon the actuarial analysis performed by CalPERS actuaries for the reasonableness of this discount rate.

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

<u>Asset Class</u>	<u>New Strategic Allocation</u> %	<u>Real Return Years 1 - 10</u> %	<u>Real Return Years 11+</u> %
Global Equity	50.0	4.80	5.98
Fixed Income	28.0	1.00	2.62
Inflation Assets	0.0	0.77	1.81
Private Equity	8.0	6.30	7.23
Real Assets	13.0	3.75	4.93
Liquidity	1.0	0.00	-0.92
	<u>100.0</u>		

**KINNELOA IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5. PENSION PLAN, continued

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

	Discount Rate		
	Less 1% - 6.15%	Current - 7.15%	Plus 1% - 8.15%
Proportionate Net Pension Liability	\$ <u>455,719</u>	<u>271,329</u>	<u>119,118</u>

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

NOTE 6. INSURANCE POOLS

The District is a member of the Joint Powers Insurance Authority ("JPIA"), which pools together members of the Association of California Water Agencies for the purpose of paying group property, general liability and workers' compensation claims. Premiums are remitted directly to the JPIA by its members. The property portion is entirely self-funded, and the general liability self-funded portion is capped at \$5,000,000. Excess liability insurance in the amount of \$55,000,000 has been purchased by the Authority, bringing the total liability coverage to \$60,000,000.

To date, the District and its counsel are not aware of any material claims incurred through the period ended December 31, 2018, 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.

Contingencies

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

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

SUPPLEMENTARY INFORMATION

**KINNELOA IRRIGATION DISTRICT
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating & Maintenance		
Power	\$ 127,199	122,814
Purchased water	63,135	-
Labor	184,342	164,121
Engineering	4,770	10,955
Maintenance and repairs	33,403	28,159
Water analysis	22,540	15,108
Outside contractors	114,816	129,294
Truck maintenance and fuel	19,931	12,889
Insurance	107,722	93,945
Watermaster	10,740	11,039
Other	11,695	22,020
	<u>700,293</u>	<u>610,344</u>
	<u>\$ 700,293</u>	<u>610,344</u>
Administrative and General		
Administrative salaries	\$ 134,291	130,064
Office labor	93,934	61,425
Payroll taxes	30,644	26,627
CalPERS retirement	27,756	28,499
CalPERS change in estimates	(174,306)	197,419
Outside services	28,996	27,980
Legal fees	8,425	2,205
Professional dues	10,644	10,608
Board meetings	5,000	5,200
Office expense	27,035	29,440
Telephone, internet	9,206	8,477
Accounting fees	6,750	6,750
Permits and operational fees	7,308	7,333
Information systems	14,832	5,544
Election	81	-
	<u>230,596</u>	<u>547,571</u>
	<u>\$ 230,596</u>	<u>547,571</u>

KINNELOA IRRIGATION DISTRICT
Required Supplementary Information (Unaudited)
Schedule of the District's Proportionate Share of the Plan's Net Pension Liability
For the Year Ended December 31, 2018

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date:	<u>June 30, 2018¹</u>	<u>June 30, 2017¹</u>	<u>June 30, 2016¹</u>
District's Proportion of the Net Pension Liability	0.008070%	0.008910%	0.008780%
District's Proportionate Share of the Net Pension Liability	\$ 271,329	\$ 331,920	\$ 173,870
District's Covered-Employee Payroll	\$ 398,795	\$ 350,511	\$ 309,239
a Percentage of Covered-Employee Payroll	<u>68.04%</u>	<u>94.70%</u>	<u>56.23%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>80.09%</u>	<u>79.77%</u>	<u>78.50%</u>

¹ Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

KINNELOA IRRIGATION DISTRICT
Required Supplementary Information (Unaudited)
Schedule of the District's Contributions to the Pension Plan
For the Year Ended December 31, 2018

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year:	<u>2017-18¹</u>	<u>2016-17¹</u>	<u>2015-16¹</u>	<u>2014-15¹</u>
Actuarially Determined Contribution ²	\$ 23,647	\$ 21,100	\$ 19,754	\$ 22,832
Determined Contribution ²	<u>(23,647)</u>	<u>(21,100)</u>	<u>(19,754)</u>	<u>(22,832)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	<u>\$ 398,795</u>	<u>\$ 350,511</u>	<u>\$ 309,239</u>	<u>\$ 312,539</u>
Employee Payroll	<u>5.93%</u>	<u>6.02%</u>	<u>6.39%</u>	<u>7.31%</u>

¹ Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

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

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

MEMORANDUM

To: Melvin Matthews, General Manager
From: Jim Ciampa
Re: CalPERS Issues
Date: July 8, 2019

In your June 19 e-mail, you requested that we research various issues concerning CalPERS, including the possibility of the District withdrawing from CalPERS. We have completed that research and provide our responses below.

As public agencies' significant CalPERS liabilities are being more prominently recognized and reported, some agencies have withdrawn from CalPERS. Here is a link to an L.A. Times article about a small town, Loyalton, California, which withdrew from CalPERS: <https://www.latimes.com/politics/la-pol-ca-loyalton-calpers-pension-problems-20170806-htmstory.html>. The article mentions that close to 100 cities and other government agencies have withdrawn from CalPERS. As you will see from that article, there are potentially devastating impacts from such a withdrawal, including significant termination fees and future reductions of employees' pensions.

In addition, if the District terminates its contract, among the impacts, according to the CalPERS website, are:

- Benefits are frozen and calculations are based on the benefit level in effect on the date of contract termination. However, your agency can enter into an agreement to ensure the final compensation used in the benefits calculation is based on a higher pay rate if the member later works for another CalPERS employer or reciprocal system.
- CalPERS members credited with service from your agency who are not employed by another CalPERS employer may elect to withdraw their contributions or leave them on deposit, regardless of the amount of service credit. Members who withdraw their contributions will not be entitled to any future benefits and may not ever redeposit those contributions based on their employment with your agency.

- Your agency is responsible for sufficient funding to continue paying the retirement and death benefits paid and for future benefits payable to CalPERS members or beneficiaries electing to leave their funds on deposit with CalPERS.

If the District determined that withdrawing from CalPERS was worth those costs and other impacts, so long as the District's PERS contract has been in effect for at least five years, the District could terminate the contract. The District would have to adopt a resolution giving notice of intention to terminate by an affirmative vote of two-thirds of the District's Board members. The termination may be effective not less than one year following the adoption of the resolution of intention by adoption of a final resolution or ordinance terminating the contract. If the original contract was approved by an ordinance adopted by a majority vote of the electorate, a majority vote of the electorate is also required for termination. As discussed above, there also will be a significant termination fee the District would be required to pay.

The CalPERS website has a page dedicated to the details that must be entered if an agency is terminating its CalPERS contract – the link to that page is:

https://my.calpers.ca.gov/web/help/help_bp/Manage_Retirement_Contract/OH827_Terminate_Retirement_Contract_Details_Page.htm#H2_AccTerminateRetireContDetsPage_IntBP

As to some of the related issues about which you inquired, the District can establish a Section 457(b) deferred compensation plan to supplement its CalPERS plan. With respect to a new employee possibly opting out of participation in CalPERS, that would depend on the District's CalPERS contract provisions. However, assuming the District has a standard CalPERS contract, then a new KID employee would **not** be able to opt out of participating in CalPERS.

CONCLUSION: As you can see, withdrawing from CalPERS could have a devastating impact on the District. I believe the better alternative is to look into establishing a trust that can be used to fund prepayment of the District's CalPERS and, perhaps, OPEB liabilities. I am aware of several agencies that have established such trusts, which allow them to incrementally pay down their pension and/or OPEB liabilities in advance.

Also, the District should consider engaging a retirement benefits consultant to explore other possible plans that could be used to supplement CalPERS, if the Board desires that approach. However, those plans would likely be in addition to CalPERS, rather than in place of it.

Please let me know if you have any further questions on these issues.