

**ROWLAND WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**WITH REPORT ON AUDIT**  
**BY INDEPENDENT**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**JUNE 30, 2011 AND 2010**



ROWLAND WATER DISTRICT

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June 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Rowland Water District  
Rowland Heights, California

We have audited the basic financial statements of the Rowland Water District as of and for the years ended June 30, 2011 and 2010 as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Rowland Water District as of June 30, 2011 and 2010 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

As discussed in Note 13 to the basic financial statements, certain errors resulting in an overstatement of previously reported construction in progress and understatements of previously reported water in storage and accrued net OPEB obligation as of July 1, 2010, were discovered by management of the District during the current year. Accordingly, the basic financial statements as of and for the year ended June 30, 2010 have been restated to correct these errors.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other post-employment benefit plan - schedule of funding progress, as identified in the accompanying table of contents, 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 the 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of other operating expenses and schedules of general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 of the District or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*White Nelson Diehl Evans, LLP*

November 1, 2011  
Irvine, California

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# ROWLAND WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

#### Fiscal Year 2011

- The District's total net assets decreased by \$404,299 or 0.63 percent.
- During the year, the District's total revenues increased to \$16,414,591 or 4.73 percent, and total expenses increased to \$17,056,666 or 17.08 percent.
- Capital Assets, net of related debt decreased to \$42,055,597 or 0.11 percent over last year.

#### Fiscal Year 2010

- The District's total net assets increased by \$1,260,325 or 2.02 percent.
- During the year, the District's total revenues increased to \$15,673,220 or 8.86 percent, and total expenses decreased to \$14,568,763 or 0.94 percent.
- Capital Assets, net of related debt increased to \$42,102,764 or 2.13 percent over last year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts: Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the Financial Statements.

### **REQUIRED FINANCIAL STATEMENTS**

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statements of Net Assets include all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets. These statements measure the success of the District's operations over the past two years and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of the statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

See independent auditors' report.



ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**FINANCIAL ANALYSIS OF THE DISTRICT**

Our analysis of the District begins on page 16 of the Financial Statements. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These statements report the net assets of the District and changes in them. You can think of the District's net assets - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, population growth, and new or changed government legislation.

**NET ASSETS**

To begin our analysis, a summary of the District's Net Assets is presented in Table 1.

**TABLE 1**  
**Condensed Statements of Net Assets**

	Fiscal Year 2011	Fiscal Year 2010 (As Restated)	Dollar Change	Fiscal Year 2009 (As Restated)	Dollar Change
<b>Assets:</b>					
Current, restricted and other assets	\$ 24,568,109	\$ 25,608,114	\$ (1,040,005)	\$ 37,866,555	\$(12,258,441)
Capital assets	61,887,095	61,894,753	(7,658)	49,126,993	12,767,760
Total Assets	<u>86,455,204</u>	<u>87,502,867</u>	<u>(1,047,663)</u>	<u>86,993,548</u>	<u>509,319</u>
<b>Liabilities:</b>					
Current liabilities	2,731,921	2,994,565	(262,644)	3,748,716	(754,151)
Noncurrent liabilities	20,388,961	20,769,681	(380,720)	20,766,536	3,145
Total Liabilities	<u>23,120,882</u>	<u>23,764,246</u>	<u>(643,364)</u>	<u>24,515,252</u>	<u>(751,006)</u>
<b>Net Assets:</b>					
Invested in capital assets, net of related debt	42,055,597	42,102,764	(47,167)	41,226,178	876,586
Restricted	1,524,743	1,833,167	(308,424)	13,983,256	(12,150,089)
Unrestricted	19,753,982	19,802,690	(48,708)	7,268,862	12,533,828
Total Net Assets	<u>\$ 63,334,322</u>	<u>\$ 63,738,621</u>	<u>\$ (404,299)</u>	<u>\$ 62,478,296</u>	<u>\$ 1,260,325</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**NET ASSETS (CONTINUED)**

As can be seen from Table 1, total assets decreased by \$1,047,663 from fiscal year 2010 to 2011. The majority of this decrease comes from current, restricted and other assets that saw a \$1,040,005 or 4.06% decrease from fiscal year 2010. This decrease was caused by reduction in the Acquisition account. This account was the proceeds from the 2008 Recycled Water Project Certificates of Participation (COP). As portions of the project are completed, the funds are used to pay for the contractors and the supplies that were used. The Recycled Water Project Certificates of Participation (COP) funds were depleted in fiscal year 2010-2011 and restricted cash and cash equivalents saw a reduction of \$776,616.00 or 28.22% from the previous fiscal year. This was the majority of the decrease in total assets for the fiscal year.

When construction projects are completed, they are subsequently capitalized and become depreciating assets. Large projects completed during fiscal year 2011 included:

**Anthony Poli Well Replacement:** The Anthony Poli Well submersible pump failed to operate, so General Pump Company was authorized to remove and repair the well pump. After General Pump Company removed and fully inspected the well pump, it was determined that the pump, motor, and cable would require replacement. General Pump Company provided all labor and material to replace and install the submersible pump and column pipe.

**JLR1 & JLR2 Roof Recoating:** Rowland Water District determined through inspections that the exterior roof coatings on both Joint Line reservoirs were in need of recoating to extend the life expectancy of the roof coating system. Superior Tank Solutions was authorized to make the necessary coating repairs to both roof structures after providing the District with detailed proposals. The damaged areas of roof coating were prepared for recoating through pressure washing, hand tool cleaning and sanding before being coated with an epoxy prime coat and a urethane top coat.

**Fullerton Road - Recycled Water Distribution System Expansion** - as part of an overall plan to expand the recycled water distribution system and increase service reliability, this project extended a 24" pipeline and appurtenances approximately 8,660 feet in Fullerton Road from Arenth Avenue south to Galatina Street. This project enhanced operational reliability by providing an additional pipeline between source and storage facilities.

**Pathfinder Road - Recycled Water Distribution System Expansion** - as part of an overall plan to expand the recycled water distribution system and transmission capabilities, this project extended a 20" pipeline and appurtenances in Pathfinder Road approximately 1,000 feet westerly from Fullerton Road. This project provides an opportunity to deliver or receive recycled water from outside the service area.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**NET ASSETS (CONTINUED)**

Large projects completed during fiscal year 2011 included (Continued):

**Reservoir 6 Partial Rehabilitation:** Rowland Water District determined through inspections that Reservoir 6 was in need of safety, sanitary and security upgrades along with a complete exterior recoating. Superior Tank Solutions was authorized to make the necessary coating repairs and upgrades after providing the District with a detailed proposal. Safety, sanitary and security enhancements included the addition of extended handrails along the roof, the raising of 30 existing CP hand holes with secure caps, installation of security locks on all exterior hatches, and modifications to both interior and exterior ladders. The entire exterior roof and sidewalls were then cleaned, primed and coated with a urethane topcoat.

**Reservoir 15 Rehabilitation:** Rowland Water District determined through inspections that Reservoir 15 was in need of a complete interior and exterior recoating, along with safety, sanitary and security upgrades. Superior Tank Solutions was authorized to make the necessary coating repairs and upgrades after providing the District with a detailed proposal. Safety, sanitary and security enhancements included the raising of 15 existing CP hand holes with secure caps, installation of security locks on all exterior hatches, and modifications to the exterior ladder. The entire interior coating system was removed to Near White Metal before being coated with a multi-coat epoxy system. The entire exterior coating system was Brush-off Blast cleaned before being coated with an epoxy primer and a urethane top coat.

A further review shows total liabilities decreased by \$643,364 or 2.71% from fiscal year 2010 to 2011. The decrease is significant and was caused by two main sources. The first is a reduction in the 2008 Recycled Water Project Certificates of Participation (COP) Acquisition Fund. As the Recycled Water expansion project was completed, the amount of restricted accounts payable was reduced by \$427,929 to approximately zero. With completion of this stage of the project, all funds were depleted as contractors and suppliers associated with the project were paid from these restricted funds. The second is a reduction in the District's other post employment benefits (OPEB) obligation. A trust was established in April, 2011 to begin to fund the District's annual required contribution (ARC). The accrued net OPEB obligation was reduced by \$107,647 or 18% from the previous fiscal year.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

NET ASSETS (CONTINUED)

TABLE 2

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Fiscal Year 2011	Fiscal Year 2010 (As Restated)	Dollar Change	Fiscal Year 2009 (As Restated)	Dollar Change
Revenues:					
Operating revenues	\$ 15,675,202	\$ 14,572,665	\$ 1,102,537	\$ 12,900,358	\$ 1,672,307
Nonoperating revenues	739,389	1,100,555	(361,166)	1,496,913	(396,358)
Total Revenues	16,414,591	15,673,220	741,371	14,397,271	1,275,949
Expenses:					
Operating expenses	16,006,547	14,335,803	1,670,744	14,640,361	(304,558)
Nonoperating expenses	1,050,119	232,960	817,159	66,597	166,363
Total Expenses	17,056,666	14,568,763	2,487,903	14,706,958	(138,195)
Income (loss) before Capital Contributions	(642,075)	1,104,457	(1,746,532)	(309,687)	1,414,144
Capital contributions	237,776	155,868	81,908	612,721	(456,853)
Change in Net Assets	(404,299)	1,260,325	(1,664,624)	303,034	957,291
Beginning Net Assets, as Restated	63,738,621	62,478,296	1,260,325	62,175,262	303,034
Ending Net Assets, as Restated	\$ 63,334,322	\$ 63,738,621	\$ (404,299)	\$ 62,478,296	\$ 1,260,325

While the Statement of Net Assets shows the change in financial position, the Statements of Revenues, Expenses, and Changes in Net Assets provide answers as to the nature and source of these changes. As can be seen in Table 2, Loss before Capital Contributions of \$(642,075) and Capital Contributions of \$237,776 resulted in a decrease in ending net assets of \$404,299 or 0.63% in fiscal year 2011.

A closer examination of the source of changes in Net Assets reveals that the District's total revenues increased by \$741,371 or 4.73% in fiscal year 2011. Of this amount, operating revenues increased by \$1,102,537 or 7.57% and its nonoperating revenues decreased by \$361,166 or 32.82% in the past fiscal year.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**NET ASSETS (CONTINUED)**

The main factor attributing to the increase in operating revenues was an increase in the water rate and service charge that became effective January 1, 2011. The base water rate increased \$0.12 from \$2.07 to \$2.19 or 5.80%. Water use over 16 hcf is paid at a higher rate. The monthly service charge for standard 5/8" to 3/4" meters increased \$1.16 from \$17.46 to \$18.62 or 6.64%. The District continues to use conservation rates that were initially implemented in January, 2009. The conservation rates as of January, 2011 were a base rate of \$2.19 for 1-16 hcf, \$2.50 for 17-23 hcf, and \$3.18 for 24+ hcf. The District has six different pumping zones. Pumping charges cover the energy cost to pump water to each zone of elevation over Zone 1. This additional pumping cost is added to the base rate if the property resides in Zone 2 through Zone 6.

Nonoperating revenues also decreased significantly in 2011. Investment income decreased by \$104,687 or 21.64% from fiscal year 2010 to 2011. This is attributed to reductions in interest rates during the fiscal year. The District had cash and investment totaling \$21,609,411 ending fiscal year, a decrease of \$780,412 from 2010. Approximately 15% of District cash and investments are held in short term CD's, money market mutual funds, or the State of California Local Agency Investment Fund (LAIF). LAIF saw its yield reduced from 0.45% ending fiscal year 2011 and ended the fiscal year 2010 at 0.53%. Realized and unrealized gains on investments were decreased by \$228,763 or 147%. This is a decrease in the value of the District bond portfolio as new issues are purchased and lower interest rates. This causes the value of the portfolio to decrease as lower yielding securities replace higher yielding ones in times of declining interest rates. It is important to note that this is a reduction in the unrealized gain or book value of the portfolio only. District securities are not sold for a loss of principal.

Total operating revenues increased by \$1,102,537% while operating expenses increased by 11.65%. This resulted in operating loss of \$331,345 in fiscal year 2011. While the District saw total water sales revenue increase by \$679,573 or 6.60% from fiscal year 2010, Source of Supply costs increased \$998,484 or 13.38% from fiscal year 2010. Source of Supply includes the cost of potable and reclaimed water along with MWD and TVMWD fixed charges. The average cost of an acre foot of water increased 8.96% from \$692 in 2010 to \$754 in 2011. Fixed charges had no increase from 2010 to 2011. Pumping power cost increased by \$133,178 or 18.11% from fiscal year 2010. These factors along with 2.10% increase in general and administrative expenses saw total operating expenses increase by \$1,670,744 from the previous year. It is important to note that depreciation expense is the yearly accumulated depreciation on the District capital assets, not a figure paid by the District for the cost of the depreciated assets. The District does continue to fund 100% of depreciation through its rates and charges.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**BUDGETARY HIGHLIGHTS**

**TABLE 3  
Budget vs. Actual**

	Fiscal Year 2011		
	Actual	Budget	Variance
Revenues:			
Operating revenues	\$ 15,675,202	\$ 15,444,000	\$ 231,202
Nonoperating revenues	739,389	850,000	(110,611)
Total Revenues	<u>16,414,591</u>	<u>16,294,000</u>	<u>120,591</u>
Expenses:			
Operating Expenses:			
Source of supply	8,463,400	8,320,000	(143,400)
Pumping and power	868,504	788,000	(80,504)
Transmission and distribution	949,055	1,067,000	117,945
Customer services	151,983	146,000	(5,983)
Depreciation expenses	1,855,561	1,500,000	(355,561)
Other operating expenses	410,439	380,000	(30,439)
General and administrative expenses	3,307,605	3,481,000	173,395
Total Operating Expenses	<u>16,006,547</u>	<u>15,682,000</u>	<u>(324,547)</u>
Nonoperating expenses	<u>1,050,119</u>	<u>1,200,000</u>	<u>149,881</u>
Total Expenses	<u>17,056,666</u>	<u>16,882,000</u>	<u>(174,666)</u>
Change in Net Assets	<u>\$ (642,075)</u>	<u>\$ (588,000)</u>	<u>\$ (54,075)</u>

In looking at Table 3, Budget vs. Actual, the discrepancy in net income over budgeted net income is \$54,075 or -9.20%. Total Revenues show a positive variance of \$120,591 or 0.74% from actual.

Total operating expenses saw a negative variance or \$324,547 or 2.07%. This also is a percentage variance within the expected budget range. Nonoperating expenses saw a positive variance of \$149,881 or 14.27% from actual. These expenses account for the interest expense and the amortization expense bond issuance costs associated with the Recycled Water Certificates of Participation. Total expenses showed a 1.03% variance above the budgeted amount.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At the end of fiscal year 2011, the District had invested \$61,887,095 in a broad range of infrastructure as shown in Table 4.

**TABLE 4**  
**Capital Assets**

	Fiscal Year 2011	Fiscal Year 2010 (As Restated)	Dollar Change	Fiscal Year 2009 (As Restated)	Dollar Change
Capital assets, not being depreciated:					
Land	\$ 261,340	\$ 261,340	\$ -	\$ 261,340	\$ -
Water rights	5,000	-	5,000	-	-
Construction in progress	2,704,517	8,946,978	(6,242,461)	8,497,936	449,042
Total capital assets, not being depreciated	2,970,857	9,208,318	(6,237,461)	8,759,276	449,042
Capital assets, being depreciated:					
Intangible plant	810,935	125,106	685,829	125,106	-
Sources of supply plant	1,767,023	1,767,023	-	1,767,023	-
Pumping plant	10,037,819	9,929,673	108,146	3,738,003	6,191,670
Transmission and distribution plant	59,216,182	51,930,126	7,286,056	45,439,126	6,491,000
Telemetry equipment	1,332,302	1,332,302	-	412,938	919,364
General plant	550,403	550,403	-	550,403	-
Office building and equipment	4,231,305	4,225,972	5,333	4,177,190	48,782
Transportation equipment	651,690	651,690	-	674,057	(22,367)
Communication equipment	133,902	133,902	-	133,902	-
Total capital assets, being depreciated	78,731,561	70,646,197	8,085,364	57,017,748	13,628,449
Less accumulated depreciation	(19,815,323)	(17,959,762)	(1,855,561)	(16,650,031)	(1,309,731)
Total capital assets, being depreciated, net	58,916,238	52,686,435	6,229,803	40,367,717	12,318,718
Total capital assets, net	\$ 61,887,095	\$ 61,894,753	\$ (7,658)	\$ 49,126,993	\$ 12,767,760

Additional information on the District's capital assets can be found in Note 4 of the notes to basic financial statements.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**DEBT ADMINISTRATION**

At the end of fiscal year 2011, the District had noncurrent liabilities totaling \$20,673,961 as shown in Table 5.

**TABLE 5**  
**Noncurrent Liabilities**

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Fiscal Year 2009	Dollar Change
Certificates of Participation	\$ 20,005,000	\$ 20,280,000	\$ (275,000)	\$ 20,545,000	\$ (265,000)
Less: Unamortized discount	(173,502)	(179,587)	6,085	(185,672)	6,085
Net Certificates of Participation	19,831,498	20,100,413	(268,915)	20,359,328	(258,915)
Compensated absences	337,858	332,016	5,842	347,024	(15,008)
Accrued net OPEB obligation	504,605	612,252	(107,647)	325,184	287,068
	<u>\$ 20,673,961</u>	<u>\$ 21,044,681</u>	<u>\$ (370,720)</u>	<u>\$ 21,031,536</u>	<u>\$ 13,145</u>

The District currently has three sources of Noncurrent Liabilities in 2011. The largest is a Certificate of Participation (COP) that was issued in January 2009. These funds are being used for the expansion of the District's Recycled Water System. The goal is to lower the dependence on import water by producing recycled water at a lower cost. Recycled water can be used for irrigation at school, parks, industrial buildings, etc. The increase in compensated absences is attributed to more sick and vacation time being due to current employees. This could be due to employees selling back or using less sick and vacation time and the District have a higher liability at year end. Compensated absences are District liabilities for accrued sick and vacation time on the books for current employees. These liabilities would have to be paid at the employee's retirement or separation from service. Net OPEB obligations refer to Other Post Employment Benefits that would be owed to employees upon retirement. As discussed in Note 9, this liability arose from the implementation of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions". The OPEB obligation is the difference between the actuarially-determined annual required contribution and the actual contributions made. The District currently funds these expenses on a pay-as-you-go basis, but is considering other funding options in the future.

Additional information on the District's noncurrent liabilities can be found in Notes 5, 6 and 9 of the notes to basic financial statements.

See independent auditors' report.



ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District's Board of Directors and management considered many factors when setting the fiscal year 2012 Budget, user fees, and charges. A projection is made on the amount of acre feet of water that will be purchased and sold. The District also looks at the increase in the Source of Supply. Since the District heavily relies on import water, the costs are directly passed through by Metropolitan Water District and Three Valleys Municipal Water District. Most are fixed costs that do not vary depending upon the amount of water sold. Other expenses are budgeted individually to account for increases in such things as Automobile and Truck Expenses or Workers' Compensation Insurance. The District's customer base has not changed significantly; therefore, revenue and costs are more easily projected.

**TABLE 6**  
**Fiscal Year 2011 Budget vs. Fiscal Year 2010 Actual**

	Fiscal Year 2011 Actual	Fiscal Year 2012 Budget	Variance
Revenues:			
Operating revenues	\$ 15,675,202	\$ 16,265,000	\$ 589,798
Nonoperating revenues	739,389	885,000	145,611
Total Revenues	<u>16,414,591</u>	<u>17,150,000</u>	<u>735,409</u>
Expenses:			
Operating Expenses:			
Source of supply	8,463,400	9,020,000	(556,600)
Pumping and power	868,504	823,000	45,504
Transmission and distribution	949,055	1,022,000	(72,945)
Customer services	151,983	148,000	3,983
Depreciation expenses	1,855,561	1,800,000	55,561
Other operating expenses	410,439	430,000	(19,561)
General and administrative expenses	3,307,605	3,321,000	(13,395)
Total Operating Expenses	<u>16,006,547</u>	<u>16,564,000</u>	<u>(557,453)</u>
Nonoperating expenses	<u>1,050,119</u>	<u>1,200,000</u>	<u>(149,881)</u>
Total Expenses	<u>17,056,666</u>	<u>17,764,000</u>	<u>(707,334)</u>
Change in Net Assets	<u>\$ (642,075)</u>	<u>\$ (614,000)</u>	<u>\$ 28,075</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**CONTACTING THE DISTRICT'S FINANCIAL OFFICER**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Sean S. Henry, Finance Officer, Rowland Water District.

See independent auditors' report.

## **BASIC FINANCIAL STATEMENTS**

ROWLAND WATER DISTRICT

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u> (As Restated)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,057,927	\$ 2,818,777
Restricted cash and cash equivalents	1,975,299	2,751,915
Investments	16,576,185	16,819,131
Accounts receivable, net of allowance for doubtful accounts of \$30,000	2,137,670	2,187,835
Interest receivable	81,530	91,401
Supply inventories	93,506	91,761
Water in storage	301,537	493,029
Prepaid expenses	<u>39,365</u>	<u>38,475</u>
<b>TOTAL CURRENT ASSETS</b>	<u>24,263,019</u>	<u>25,292,324</u>
<b>CAPITAL ASSETS:</b>		
Capital assets, not being depreciated	2,970,857	9,208,318
Capital assets, being depreciated	78,731,561	70,646,197
Less accumulated depreciation	<u>(19,815,323)</u>	<u>(17,959,762)</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>61,887,095</u>	<u>61,894,753</u>
<b>OTHER NONCURRENT ASSETS:</b>		
Bond issuance costs, net of accumulated amortization	<u>305,090</u>	<u>315,790</u>
<b>TOTAL ASSETS</b>	<u>86,455,204</u>	<u>87,502,867</u>

(Continued)

See independent auditors' report and notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENTS OF NET ASSETS  
(CONTINUED)

June 30, 2011 and 2010

LIABILITIES	<u>2011</u>	<u>2010</u> (As Restated)
<b>CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED ASSETS):</b>		
Accounts payable	\$ 1,846,709	\$ 1,649,786
Interest payable	149,656	151,031
Current portion of certificates of participation	285,000	275,000
	<u>2,281,365</u>	<u>2,075,817</u>
<b>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):</b>		
Accounts payable	55	427,984
Refundable customer deposits	153,939	124,226
Deferred construction advances	296,562	366,538
	<u>450,556</u>	<u>918,748</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,731,921</u>	<u>2,994,565</u>
<b>NONCURRENT LIABILITIES:</b>		
Compensated absences	337,858	332,016
Accrued net OPEB obligation	504,605	612,252
Certificates of participation	19,831,498	20,100,413
Less: current portion	<u>(285,000)</u>	<u>(275,000)</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>20,388,961</u>	<u>20,769,681</u>
<b>TOTAL LIABILITIES</b>	<u>23,120,882</u>	<u>23,764,246</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	42,055,597	42,102,764
Restricted for debt service	1,524,743	1,524,743
Restricted for capital improvements	-	308,424
Unrestricted	<u>19,753,982</u>	<u>19,802,690</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 63,334,322</u>	<u>\$ 63,738,621</u>

See independent auditors' report and notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS

For the years ended June 30, 2011 and 2010

	2011	2010 (As Restated)
<b>OPERATING REVENUES:</b>		
Water sales:		
Residential	\$ 6,027,091	\$ 5,973,399
Business	3,968,865	3,869,663
Public entities	143,581	143,135
Industrial	12,542	16,450
Reclaimed water	309,875	261,785
Other	508,205	26,154
	<u>10,970,159</u>	<u>10,290,586</u>
Water services:		
Water service charges	4,383,089	3,995,894
Nonrefundable new service fees	46,010	49,230
Reconnection fees	24,255	25,997
Customer penalties	196,713	183,226
Other	54,976	27,732
	<u>4,705,043</u>	<u>4,282,079</u>
<b>TOTAL OPERATING REVENUES</b>	<u>15,675,202</u>	<u>14,572,665</u>
<b>OPERATING EXPENSES:</b>		
Source of supply	8,463,400	7,464,916
Pumping and power	868,504	735,326
Transmission and distribution	949,055	871,616
Customer services	151,983	153,994
Depreciation expense	1,855,561	1,381,191
Other operating expenses	410,439	489,157
General and administrative expenses	3,307,605	3,239,603
	<u>16,006,547</u>	<u>14,335,803</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>16,006,547</u>	<u>14,335,803</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(331,345)</u>	<u>236,862</u>

(Continued)

See independent auditors' report and notes to basic financial statements.

ROWLAND WATER DISTRICT  
 STATEMENTS OF REVENUES, EXPENSES  
 AND CHANGES IN NET ASSETS  
 (CONTINUED)

For the years ended June 30, 2011 and 2010

	2011	2010 (As Restated)
NONOPERATING REVENUES (EXPENSES):		
Investment income:		
Interest and dividend income	\$ 379,032	\$ 483,719
Realized and unrealized gain (loss) on investments	(73,003)	155,760
Property tax revenues	226,424	250,528
Gain on disposition of assets	20,583	3,975
Miscellaneous income	186,353	206,573
Interest expense	(1,033,334)	(216,175)
Amortization of debt discount and issuance costs	(16,785)	(16,785)
	(310,730)	867,595
 TOTAL NONOPERATING REVENUES (EXPENSES)	 (310,730)	 867,595
 NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	 (642,075)	 1,104,457
 CAPITAL CONTRIBUTIONS	 237,776	 155,868
 CHANGE IN NET ASSETS	 (404,299)	 1,260,325
 NET ASSETS - BEGINNING OF YEAR, AS RESTATED	 63,738,621	 62,478,296
 NET ASSETS - END OF YEAR	 \$ 63,334,322	 \$ 63,738,621

See independent auditors' report and notes to basic financial statements.

ROWLAND WATER DISTRICT  
STATEMENTS OF CASH FLOWS

For the years ended June 30, 2011 and 2010

	2011	2010 (As Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 15,946,572	\$ 14,244,811
Cash payments to suppliers for goods and services	(12,252,728)	(12,093,558)
Cash payments to employees for services	(2,233,704)	(2,100,413)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,460,140</b>	<b>50,840</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from property taxes	226,424	250,528
Other receipts	186,353	206,573
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>412,777</b>	<b>457,101</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(1,679,974)	(13,104,276)
Proceeds from sale of capital assets	20,583	5,500
Change in deferred construction advances	(69,976)	145,571
Principal payments on certificates of participation	(275,000)	(265,000)
Interest paid	(1,202,638)	(1,213,544)
Capital contributions	237,776	155,868
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(2,969,229)</b>	<b>(14,275,881)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(3,395,794)	(5,481,324)
Proceeds from sale of investments	3,565,737	4,833,000
Investment income	388,903	498,179
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>558,846</b>	<b>(150,145)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(537,466)</b>	<b>(13,918,085)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>5,570,692</b>	<b>19,488,777</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 5,033,226</b>	<b>\$ 5,570,692</b>

See independent auditors' report and notes to basic financial statements.

(Continued)



ROWLAND WATER DISTRICT

STATEMENTS OF CASH FLOWS  
(CONTINUED)

For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u> (As Restated)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (331,345)	\$ 236,862
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,855,561	1,381,191
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	50,165	(359,787)
(Increase) decrease in supply inventories	(1,745)	(25,497)
(Increase) decrease in water in storage	191,492	(493,029)
(Increase) decrease in prepaid expenses	(890)	(2,407)
Increase (decrease) in accounts payable	(231,006)	(990,486)
Increase (decrease) in accrued vacation and sick leave	5,842	(15,008)
Increase (decrease) in accrued net OPEB obligation	(107,647)	287,068
Increase (decrease) in refundable customer deposits	29,713	31,933
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 1,460,140</u>	 <u>\$ 50,840</u>
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Amortization of debt discount and issuance costs	<u>\$ 16,785</u>	<u>\$ 16,785</u>

See independent auditors' report and notes to basic financial statements.

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**NOTES TO BASIC FINANCIAL STATEMENTS**

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Nature of Organization:

The Rowland Water District (the District) was formed by the voters on March 3, 1953 under the County Water District Law, Division 12 Water Code, State of California, to provide a safe and reliable water source to allow the community to transform from a cattle raising and farming area into the large urban and industrial area it serves today. The District encompasses a 17.2 square mile area in Southeastern Los Angeles County which services portions of Rowland Heights, La Puente, Hacienda Heights, City of Industry and West Covina. The service area's population is approximately 60,000.

b. Basis of Presentation:

The District's activities are accounted for in an enterprise fund. An enterprise fund is a proprietary-type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

c. Measurement Focus and Basis of Accounting:

"Measurement focus" is a term used to describe *which* transactions are recorded within the various financial statements. "Basis of accounting" refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting." Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Net Assets:

Net assets of the District can be classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

e. Uniform System of Accounts for Water Utility Districts:

The District follows the procedures and policies described by the Controller of the State of California for uniform system of accounts for nonprofit water utility districts.

f. Operating Revenues and Expenses:

Operating revenues, such as water sales and services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes and investment income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Cash and Cash Equivalents:

For purposes of the statement of cash flows, cash and cash equivalents have been defined as unrestricted demand deposits and highly liquid investments with maturity of three months or less at date of purchase.

h. Investments:

Investments are stated at fair value (quoted market price or the best available estimates thereof). Net increase (decrease) in the fair value of investments, which consists of realized gains (losses) and the unrealized gains (losses), is shown in the statement of revenues, expenses and changes in net assets.

i. Restricted Assets:

Amounts shown as restricted assets have been restricted by either bond indentures, external constraints, or laws and regulations of other governments.

j. Accounts Receivable:

The District grants unsecured credit to its customers. Bad debts are accounted for by the reserve method, which establishes an allowance for doubtful accounts based upon historical losses and a review of past due accounts.

k. Inventories and Water in Storage:

Supply inventories maintained by the District consist primarily of water meters and accessories, water pipes, valves and various fittings. Inventories are valued at cost using the first-in, first-out (FIFO) method.

Water in storage is valued at average cost.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Capital Assets and Depreciation:

Capital assets are stated at cost, net of accumulated depreciation. District policy has set the capitalization threshold for reporting capital assets at \$2,500. Depreciation is recorded on the straight-line basis over the estimated useful lives ranging from 5 to 75 years. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized.

m. Amortization:

Bond issuance costs and bond discounts are being amortized on the straight-line method over periods not to exceed debt maturities. Amortization expense aggregated \$16,785 for both years ended June 30, 2011 and 2010.

n. Capitalized Interest:

The District incurred interest charges on the Certificates of Participation (Note 5) totaling \$1,201,263 and \$1,262,375 for the years ended June 30, 2011 and 2010, respectively. \$167,929 and \$1,054,351 of these amounts have been capitalized as additions to the cost of construction for the years ended June 30, 2011 and 2010, respectively.

o. Restricted Liabilities:

Certain liabilities which are currently payable have been classified as current liabilities payable from restricted assets and assets have been restricted for their payment.

p. Deferred Construction Advances and Capital Contributions:

Construction advances from developers are deferred during the period of construction. When a project is completed, the applicable deferred advances are allocated to the contributed capital. Also, capital contributions represent cash and utility plant additions contributed to the District by property owners or developers desiring services that require capital expenditures or capacity commitment.

q. Property Taxes:

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

q. Property Taxes (Continued):

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 10 Second Installment - February 10
Delinquent Date:	First Installment - December 10 Second Installment - April 10

r. Compensated Absences:

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees.

s. Claims and Judgments:

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its participation in the Joint Power Insurance Authority program. At June 30, 2011 and 2010, in the opinion of the District's legal counsel, the District had no material claims which would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

t. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

See independent auditors' report.



ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

2. CASH AND INVESTMENTS:

**Cash and Investments:**

Cash and investments as of June 30, 2011 and June 30, 2010 are reported in the accompanying combined financial statements as follows:

	<u>2011</u>	<u>2010</u>
Financial Statement Classification:		
Unrestricted:		
Cash and cash equivalents	\$ 3,057,927	\$ 2,818,777
Investments	16,576,185	16,819,131
Restricted:		
Cash and cash equivalents	<u>1,975,299</u>	<u>2,751,915</u>
Total cash and investments	<u>\$ 21,609,411</u>	<u>\$ 22,389,823</u>

Cash and investments as of June 30, 2011 and June 30, 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 400	\$ 400
Demand deposits	719,509	335,926
Time deposits	2,570,000	2,676,000
Investments	<u>18,319,502</u>	<u>19,377,497</u>
Total cash and cash equivalents	<u>\$ 21,609,411</u>	<u>\$ 22,389,823</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

2. CASH AND INVESTMENTS (CONTINUED):

**Investments Authorized by the California Government Code and the District's Investment Policy:**

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Agency Securities	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	5%
CD Placement Service	5 years	30%	None
Bankers Acceptances	180 days	40%	30%
Repurchase Agreements	1 year	None	None
Commercial Paper	270 days	25%	10%
Medium-term Notes	5 years	30%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Mutual Funds and Money Market Mutual Funds	N/A	20%	10%

\* - Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

N/A - Not Applicable

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

2. CASH AND INVESTMENTS (CONTINUED):

**Investments Authorized by Debt Agreements:**

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Government Sponsored			
Agency Securities	None	None	None
State and Local Agency Obligations	None	None	None
Banker's Acceptances	1 year	None	None
Medium-term Notes	3 years	None	None
Commercial Paper	None	None	None
Money Market Mutual Funds	N/A	None	None
Investment Agreements	None	None	None
Certificates of Deposit	None	None	None
Repurchase Agreements	30 days	None	None
California Local Agency			
Investment Fund (LAIF)	N/A	None	None

N/A - Not Applicable

**Disclosures Relating to Interest Rate Risk:**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Interest Rate Risk (Continued):**

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2011 and 2010.

June 30, 2011

<u>Investment Type</u>	<u>Remaining Maturity (in Years)</u>				<u>Fair Value Total</u>
	<u>Less Than 1 year</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	<u>3 to 5 Years</u>	
U.S. Treasury Notes	\$ 767,422	\$ 724,323	\$ 265,097	\$ 781,584	\$ 2,538,426
U.S. Government Sponsored					
Agency Securities:					
Federal Home Loan Bank	1,247,202	1,289,363	523,962	1,049,915	4,110,442
Federal Home Loan					
Mortgage Corporation	257,498	2,354,428	522,073	263,254	3,397,253
Federal National					
Mortgage Association	1,005,908	525,220	1,050,068	862,953	3,444,149
Federal Farm Credit Bank	253,880	-	262,035	-	515,915
LAIF	2,788,519	-	-	-	2,788,519
Held by Trustee:					
Money Market Mutual Funds	<u>1,524,798</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,524,798</u>
	<u>\$ 7,845,227</u>	<u>\$ 4,893,334</u>	<u>\$ 2,623,235</u>	<u>\$ 2,957,706</u>	<u>\$ 18,319,502</u>

June 30, 2010

<u>Investment Type</u>	<u>Remaining Maturity (in Years)</u>				<u>Fair Value Total</u>
	<u>Less Than 1 year</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	<u>3 to 5 Years</u>	
U.S. Treasury Notes	\$ 512,257	\$ 1,014,152	\$ 265,783	\$ 785,998	\$ 2,578,190
U.S. Government Sponsored					
Agency Securities:					
Federal Home Loan Bank	504,845	1,277,514	1,544,854	834,313	4,161,526
Federal Home Loan					
Mortgage Corporation	490,287	269,375	2,402,526	778,530	3,940,718
Federal National					
Mortgage Association	-	1,015,523	530,625	1,399,672	2,945,820
Federal Farm Credit Bank	-	257,032	-	259,845	516,877
LAIF	2,973,215	-	-	-	2,973,215
Held by Trustee:					
Money Market Mutual Funds	<u>2,261,151</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,261,151</u>
	<u>\$ 6,741,755</u>	<u>\$ 3,833,596</u>	<u>\$ 4,743,788</u>	<u>\$ 4,058,358</u>	<u>\$ 19,377,497</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Credit Risk:**

Generally, 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. Presented in the following table are the Standard and Poor's credit ratings for the Districts investments as of June 30, 2011. U.S. treasury notes and bills are not required to be rated and, therefore, have been excluded from the tables below.

June 30, 2011

<u>Investment</u>	<u>Minimum Legal Rating</u>	<u>Total as of June 30, 2011</u>	<u>AAA</u>	<u>Unrated</u>
U.S. Government				
Sponsored Agency Securities:				
Federal Home Loan Bank	N/A	\$ 4,110,442	\$ 4,110,442	\$ -
Federal Home Loan Mortgage Corporation	N/A	3,397,253	3,397,253	-
Federal National Mortgage Association	N/A	3,444,149	3,444,149	-
Federal Farm Credit Bank	N/A	515,915	515,915	-
LAIF	N/A	2,788,519	-	2,788,519
Held by Trustee:				
Money Market Mutual Funds	AAA	1,524,798	1,524,798	-
		<u>\$ 15,781,076</u>	<u>\$ 12,992,557</u>	<u>\$ 2,788,519</u>

Subsequent to June 30, 2011, Standard and Poor's reduced the rating of the United States Government Sponsored Agency Securities from AAA to AA+.

June 30, 2010

<u>Investment</u>	<u>Minimum Legal Rating</u>	<u>Total as of June 30, 2011</u>	<u>AAA</u>	<u>Unrated</u>
U.S. Government				
Sponsored Agency Securities:				
Federal Home Loan Bank	N/A	\$ 4,161,526	\$ 4,161,526	\$ -
Federal Home Loan Mortgage Corporation	N/A	3,940,718	3,940,718	-
Federal National Mortgage Association	N/A	2,945,820	2,945,820	-
Federal Farm Credit Bank	N/A	516,877	516,877	-
LAIF	N/A	2,973,215	-	2,973,215
Held by Trustee:				
Money Market Mutual Funds	AAA	2,261,151	2,261,151	-
		<u>\$ 16,799,307</u>	<u>\$ 13,826,092</u>	<u>\$ 2,973,215</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

2. CASH AND INVESTMENTS (CONTINUED):

**Concentration of Credit Risk:**

Investments in any one issuer that represents 5% or more of total District's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>2011</u>	<u>2010</u>
Federal Home Loan Bank	U.S. Government Sponsored Agency Securities	\$4,110,442	\$4,161,526
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Agency Securities	\$3,397,253	\$3,940,718
Federal National Mortgage Association	U.S. Government Sponsored Agency Securities	\$3,444,149	\$2,945,820

**Custodial Credit Risk:**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the District 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, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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.

As of June 30, 2011 and 2010, the District had no uninsured and uncollateralized deposits.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

2. CASH AND INVESTMENTS (CONTINUED):

**Investment in State Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 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 (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for, the following:

<u>Funding Source</u>	<u>Use</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Deposits from customers	Security deposits for payment of utility bills	\$ 153,939	\$ 124,226
Customer advances	Construction	296,562	366,538
Bond proceeds	Debt service	1,524,743	1,524,743
Bond proceeds	Construction of reclaimed water facilities	<u>55</u>	<u>736,408</u>
		<u>\$ 1,975,299</u>	<u>\$ 2,751,915</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

4. CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Retirements Transfers	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 261,340	\$ -	\$ -	\$ 261,340
Water rights	-	5,000	-	5,000
Construction in progress, as restated, (see Note 13)	<u>8,946,978</u>	<u>1,723,873</u>	<u>(7,966,334)</u>	<u>2,704,517</u>
Total capital assets, not being depreciated	<u>9,208,318</u>	<u>1,728,873</u>	<u>(7,966,334)</u>	<u>2,970,857</u>
Capital assets, being depreciated:				
Intangible plant	125,106	685,829	-	810,935
Sources of supply plant	1,767,023	-	-	1,767,023
Pumping plant	9,929,673	108,146	-	10,037,819
Transmission and distribution plant	51,930,126	7,286,056	-	59,216,182
Telemetry equipment	1,332,302	-	-	1,332,302
General plant	550,403	-	-	550,403
Office building and equipment	4,225,972	5,333	-	4,231,305
Transportation equipment	651,690	-	-	651,690
Communication equipment	<u>133,902</u>	<u>-</u>	<u>-</u>	<u>133,902</u>
Total capital assets, being depreciated	70,646,197	8,085,364	-	78,731,561
Less accumulated depreciation	<u>(17,959,762)</u>	<u>(1,855,561)</u>	<u>-</u>	<u>(19,815,323)</u>
Total capital assets, being depreciated, net	<u>52,686,435</u>	<u>6,229,803</u>	<u>-</u>	<u>58,916,238</u>
Total capital assets, net	<u>\$ 61,894,753</u>	<u>\$ 7,958,676</u>	<u>\$(7,966,334)</u>	<u>\$ 61,887,095</u>

See independent auditors' report.



ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

4. CAPITAL ASSETS (CONTINUED):

Changes in capital assets for the year ended June 30, 2010 is as follows:

	Balance <u>July 1, 2009</u>	Additions	Retirements <u>Transfers</u>	Balance <u>June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 261,340	\$ -	\$ -	\$ 261,340
Construction in progress, as restated, (see Note 13)	<u>8,497,936</u>	<u>14,077,438</u>	<u>(13,628,396)</u>	<u>8,946,978</u>
Total capital assets, not being depreciated	<u>8,759,276</u>	<u>14,077,438</u>	<u>(13,628,396)</u>	<u>9,208,318</u>
Capital assets, being depreciated:				
Intangible plant	125,106	-	-	125,106
Sources of supply plant	1,767,023	-	-	1,767,023
Pumping plant	3,738,003	6,191,670	-	9,929,673
Transmission and distribution plant	45,439,126	6,491,000	-	51,930,126
Telemetry equipment	412,938	919,364	-	1,332,302
General plant	550,403	-	-	550,403
Office building and equipment	4,177,190	61,071	(12,289)	4,225,972
Transportation equipment	674,057	38,329	(60,696)	651,690
Communication equipment	<u>133,902</u>	<u>-</u>	<u>-</u>	<u>133,902</u>
Total capital assets, being depreciated	57,017,748	13,701,434	(72,985)	70,646,197
Less accumulated depreciation	<u>(16,650,031)</u>	<u>(1,381,191)</u>	<u>71,460</u>	<u>(17,959,762)</u>
Total capital assets, being depreciated, net	<u>40,367,717</u>	<u>12,320,243</u>	<u>(1,525)</u>	<u>52,686,435</u>
Total capital assets, net	<u>\$ 49,126,993</u>	<u>\$ 26,397,681</u>	<u>\$(13,629,921)</u>	<u>\$ 61,894,753</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

5. CERTIFICATES OF PARTICIPATION:

On December 23, 2008, the District issued \$20,545,000 of Certificates of Participation. The proceeds are being used to finance the acquisition and construction of certain recycled water improvements.

The Certificates were issued at a discount of \$188,627, which is being amortized and recognized as interest expense over the life of the debt on a straight-line basis. This issuance is comprised of \$6,815,000 serial certificates maturing annually on December 1 from 2009 to 2025 and three term certificates (totaling \$13,730,000) maturing on December 1, 2029, 2035 and 2039 that are payable in annual sinking fund installments commencing December 1, 2026. Interest on the certificates is payable semi-annually on December 1 and June 1 at rates ranging from 4.00% to 5.75% for the serial certificates and 6.00% to 6.50% for the term certificates.

The following is a summary of the changes in Certificates of Participation for the year ended June 30, 2011:

	<u>Balance at</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Certificates of Participation (COP):					
2008 COP	\$ 20,280,000	\$ -	\$ (275,000)	\$ 20,005,000	\$ 285,000
Less:					
Unamortized discount	<u>(179,587)</u>	<u>-</u>	<u>6,085</u>	<u>(173,502)</u>	<u>-</u>
TOTAL	<u>\$ 20,100,413</u>	<u>\$ -</u>	<u>\$ (268,915)</u>	<u>\$ 19,831,498</u>	<u>\$ 285,000</u>

Maturities of the 2008 Certificates of Participation and interest payments subsequent to June 30, 2011 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 285,000	\$ 1,191,550	\$ 1,476,550
2013	300,000	1,179,850	1,479,850
2014	315,000	1,165,975	1,480,975
2015	330,000	1,149,850	1,479,850
2016	345,000	1,132,975	1,477,975
2017 - 2021	2,030,000	5,367,569	7,397,569
2022 - 2026	2,670,000	4,725,313	7,395,313
2027 - 2031	3,575,000	3,815,400	7,390,400
2032 - 2036	4,920,000	2,476,713	7,396,713
2037 - 2040	<u>5,235,000</u>	<u>679,844</u>	<u>5,914,844</u>
Total	<u>\$ 20,005,000</u>	<u>\$ 22,885,039</u>	<u>\$ 42,890,039</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

6. COMPENSATED ABSENCES:

In accordance with the District's policy, employees may accrue up to 240 hours of vacation. For the years ended June 30, 2011 and 2010, the total accrued vacation liability for all employees totaled \$143,328 and \$139,577, respectively.

Also, in accordance with the District's policy, employees may accrue up to 352 hours of sick leave. Upon attaining 352 hours, the employee may exercise a one-time option to exchange sick leave hours for cash or vacation time. Upon separation, retirement or death, an employee shall receive as additional retirement benefit, an amount equal to 50% of accrued hours for unused sick leave pay for up to 352 hours, or 176 hours. The District has modified the Employment Agreement in regards to the General Manager's sick leave benefits. The Manager shall receive the same sick leave benefits, upon the same terms and conditions, as provided to all other District employees, except that upon retirement or other termination of the Manager's employment. The Manager is entitled to receive 100% of accrued sick leave up to 1,000 hours in the event of separation from employment. For the years ended June 30, 2011 and 2010, the total accrued sick leave liability for all employees totaled \$194,530 and \$192,439, respectively.

7. DEFERRED COMPENSATION PLAN:

The District has adopted a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary until future years. The funds are not available to employees until termination, retirement, death or an unforeseeable emergency. Employees may contribute to the Plan up to 25% of their annual compensation, not to exceed limits established in the Internal Revenue Code. The District does not make any contributions to this Plan. Deferred compensation plan assets are not included in the financial statements as the plan assets are held in trust to protect them from general creditors of the District.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

8. EMPLOYEE RETIREMENT PLAN:

a. Plan Description:

Rowland Water District contributes to the Miscellaneous 2.5% at 55 Risk Pool of the California Employees Retirement System (CalPERS), a cost sharing, multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. As of July 1, 2005, the District was mandated by the State to participate in the risk pool. The risk pool combines the assets and liabilities across employers of the same risk pool to provide a method to spread the risk of uncertain gains and losses over a larger base of members. The June 30, 2003 valuations were the first pooled valuations. Benefit provisions and all other requirements are established by State statute and District resolutions. Copies of CalPERS' annual financial report may be obtained from their Executive Office located at, 400 P Street, Sacramento, CA 95814.

b. Funding Policy:

The District contributes all amounts necessary to fund benefits for its employees. The contribution includes an employee portion of 8% of current covered payroll. The District has elected to contribute the employee portion. The District is also required to contribute any actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2011 was 13.615%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The District's contributions to CalPERS for the years ended June 30, 2011, 2010 and 2009, which were all prepaid by the District at the beginning of the year, were \$230,905, \$203,221 and \$176,759, respectively. These contributions were equal to the required contributions for each year.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

a. Plan Description:

The District has a single-employer other post-employment benefit plan that provides medical, dental and vision coverage to 26 active employees and 11 retired employees through the ACWA health program. At retirement, the District provides a contribution for the continuation of these coverage's for eligible retirees. Eligibility for a District contribution requires retirement from the District and under PERS on or after age 50 with at least 5 years of service. The District provides 100% of the cost of coverage for the retiree and any covered spouse.

Employees hired on or after July 1, 2009 are eligible for a District contribution if retiring from the District and under PERS on or after age 55 with at least 15 years of continuous District service. The District provides 100% of the cost of coverage for the retiree only.

A stand-alone financial report is not issued for this plan and it is not included in the report of PERS or another entity.

b. Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. The District has been typically funding this OPEB plan on a pay-as-you-go basis. For the years ended June 30, 2011 and 2010, the District paid \$118,188 and \$109,308, respectively, in health care costs for its retirees and their covered dependents. In addition, on April 11, 2011, the District made a \$400,000 contribution to a trust account established to fund the District's net OPEB obligation.

c. Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45 applied prospectively. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

c. Annual OPEB Cost and Net OPEB Obligation (Continued):

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan:

	2011	2010 (As Restated)
Annual required contribution	\$ 407,701	\$ 394,868
Interest on net OPEB obligation	30,613	16,259
Adjustment to annual required contribution	<u>(27,773)</u>	<u>(14,751)</u>
Annual OPEB cost (expense)	410,541	396,376
Actual contributions made	<u>(518,188)</u>	<u>(109,308)</u>
Decrease in net OPEB obligation	(107,647)	287,068
Net OPEB Obligation - beginning of year	<u>612,252</u>	<u>325,184</u>
Net OPEB Obligation - end of year	<u>\$ 504,605</u>	<u>\$ 612,252</u>

d. Three-Year Trend Information:

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2011, 2010 and 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
6/30/09	\$ 426,649	23.78%	\$ 325,184
6/30/10	396,376	27.58%	612,252
6/30/11	410,541	126.22%	504,605

e. Funded Status and Funding Progress:

As of July 1, 2009 the plan was zero percent funded. The actuarial accrued liability for benefits was \$4,645,724, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,645,724. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$1,964,000 and the ratio of the UAAL to the covered payroll was 236.54%.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

e. Funded Status and Funding Progress (Continued):

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

f. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The entry age normal cost method was used for the actuarial valuation as of July 1, 2009. Significant assumptions included a discount rate of 5% per annum, projected salary increases of 3.25% per annum and medical trend rates that start at 9.0% for HMO and 9.5% for PPO coverage in the initial year and are decreased 0.5% per year to an ultimate rate of 5.0%. The unfunded actuarial accrued liability is being amortized over an initial 30 years using the level-percentage-of-pay method on a closed-basis. The remaining amortization period at July 1, 2009 is 29 years.

See independent auditors' report.

ROWLAND WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

10. JOINT VENTURES:

**Puente Basin Water Agency:**

The Puente Basin Water Agency (the Agency) was created in 1971 by the execution of a Joint Powers Agreement (the Agreement) between the Rowland Water District and the Walnut Valley Water District. The Agreement was made pursuant to Article 1, Chapter 5, Division 7, Title 1 of the government code of the State of California. The Agency was organized for the purpose of protection and utilization of the local, imported and reclaimed water supply within the Puente Basin. The Agency is governed by a four-member appointed Board of Commissioners. Each District appoints two members to this Board.

Upon dissolution of the Agency, the assets in the possession of the Agency shall be distributed to the members as their interest may appear on the books of the Agency and pursuant to the provisions of Section 6512 of the Government Code. Complete financial statements for the Agency can be obtained by written request at 271 South Brea Canyon Road, Walnut, California.

The District's equity in the Agency, as stated in the Agreement, is not reflected in the accompanying financial statements since the amounts are immaterial to the District's financial position.

**Pomona-Walnut-Rowland Joint Water Line Commission:**

The District is a member of the Pomona-Walnut-Rowland Joint Water Line Commission (the Commission). The Commission was formed, under the Joint Powers Agreement (the JPA) of 1956, between the City of Pomona, the Walnut Valley Water District and the Rowland Water District. The JPA's purpose is to acquire, construct, maintain, repair, manage and operate a water transmission pipeline for the benefit of the members' water supplies. The Commission is governed by a three-member board composed of one appointee from each member agency.

Each year, every member agency is charged an assessment for their share of the general and administrative costs of the Commission which is allocated based on each agency's capacity rights in the pipeline. In addition, a capital surcharge is assessed for the future replacement of the pipeline. For the years ended June 30, 2011 and 2010, the District remitted assessments of \$44,106 and \$41,963, respectively, for their 20.0% capacity rights and their share of future replacement costs. Also, the District purchased water totaling \$5,583,483 and \$6,094,669 from the Commission during the year end June 30, 2011 and 2010, respectively.

See independent auditors' report.



ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

10. JOINT VENTURES (CONTINUED):

Upon dissolution of the Commission, the net assets will be divided in proportion to the contribution each agency made to the maintenance and operation account during the last prior twelve month period. The District, consequently, has an ongoing financial responsibility in the activities of the Commission. However, the JPA does not explicitly require the measurement of the District's equity interest in the Commission. Complete financial statements for the Commission can be obtained by written request at P.O. Box 508, Walnut, California.

The District's equity in the Commission, as stated in the JPA, is not reflected in the accompanying financial statement since the amounts are immaterial to the District's financial position.

11. RISK MANAGEMENT:

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2011, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$50,000 per occurrence and has purchased excess insurance coverage up to \$100,000,000 (total insurable value of \$31,104,501). The District has a \$2,500 deductible for buildings, personal property and fixed equipment, a \$1,000 deductible for mobile equipment and a \$500 deductible for licensed vehicles.

General Liability - The Insurance Authority has pooled self-insurance up to \$1,000,000 per occurrence and has purchased excess insurance coverage of \$59,000,000. This program does not have a deductible.

Auto Liability - The Insurance Authority has pooled self-insurance up to \$1,000,000 per occurrence and has purchased excess insurance coverage of \$59,000,000. This program does not have a deductible.

Public Officials' Liability - The Insurance Authority has pooled self-insurance up to \$1,000,000 per occurrence and has purchased excess insurance coverage of \$59,000,000.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

11. RISK MANAGEMENT (CONTINUED):

Fidelity Bond - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence. The District has a \$1,000 deductible.

Public Official Bond - The District has purchased a \$200,000 bond to cover the general manager's faithful performance of duty.

Workers' Compensation - Insured up to the statutory limit; the Insurance Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased up to the statutory limit. Employer's liability is insured up to the statutory limit. The Insurance Authority has pooled self-insurance up to \$2,000,000 and has purchased excess insurance coverage of \$2,000,000.

Underground Storage Tank Pollution Liability - The Insurance Authority is self-insured up to \$500,000 per occurrence and has purchased excess coverage of \$3,000,000. The District has a \$10,000 deductible.

The District pays annual premiums for these coverages. They are subject to retrospective adjustments based on claims expended. The nature and amount of these adjustments cannot be estimated and are charged to expenses as invoiced. There were no instances in the past three years where a settlement exceeded the District's coverage.

12. UNRESTRICTED NET ASSETS:

The District has adopted a policy to designate reserves of unrestricted net assets. Total reserves were designated as follows as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Designated reserves for:		
Operations	\$ 2,902,500	\$ 2,083,060
Rate stabilization	2,647,872	2,798,693
Capital funding including expansion of facilities and future repairs and maintenance	<u>14,117,534</u>	<u>14,189,450</u>
Total Designated Reserves	19,667,906	19,071,203
Undesignated net assets	<u>86,076</u>	<u>731,487</u>
 Total Unrestricted Net Assets	 <u>\$ 19,753,982</u>	 <u>\$ 19,802,690</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

13. RESTATEMENT OF NET ASSETS:

Net assets at July 1, 2010 have been restated as follows:

Net assets as originally reported	\$ 64,301,776
To correct the balance of water in storage	493,029
To correct the balance of the accrued net OPEB obligation	46,882
To remove costs of projects that do not qualify for capitalization accounted for in construction in progress	<u>(1,103,066)</u>
Net assets as restated	<u>\$ 63,738,621</u>

The following balances as of and for the year ended June 30, 2010 were restated as a result of these corrections:

	<u>As Originally Reported</u>	<u>Restatement</u>	<u>As Restated</u>
<u>Statement of Net Assets</u>			
Water in storage	\$ -	\$ 493,029	\$ 493,029
Capital assets, not being depreciated	10,311,384	(1,103,066)	9,208,318
Accrued net OPEB obligation	659,134	(46,882)	612,252
Net assets:			
Invested in capital assets, net of related debt	43,205,830	(1,103,066)	42,102,764
Restricted for capital improvements	-	308,424	308,424
Unrestricted	19,571,203	231,487	19,802,690
<u>Statement of Revenues, Expenses and Changes in Net Assets</u>			
Operating expenses:			
Source of supply	7,957,945	(493,029)	7,464,916
Other operating expenses	120,088	369,069	489,157
General and administrative expenses	3,286,485	(46,882)	3,239,603
Operating income	66,020	170,842	236,862
Change in net assets	1,089,483	170,842	1,206,325
Net assets - beginning of year	63,212,293	(733,997)	62,478,296

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011 and 2010

13. RESTATEMENT OF NET ASSETS (CONTINUED):

The following balances as of and for the year ended June 30, 2010 were restated as a result of these corrections (Continued):

	<u>As Originally Reported</u>	<u>Restatement</u>	<u>As Restated</u>
<u>Statement of Cash Flows</u>			
Cash payments to suppliers for goods and services	\$ (11,724,489)	\$ (369,069)	\$ (12,093,558)
Acquisition and construction of capital assets	(13,473,345)	369,069	(13,104,276)
Operating income (loss)	66,020	170,842	236,862
(Increase) decrease in water in storage	-	(493,029)	(493,029)
Increase (decrease) in accrued net OPEB obligation	333,950	(46,882)	287,068

14. COMMITMENTS AND CONTINGENCIES:

The District has entered into various contracts for the purchase of material and construction of a reclaimed water system. The amounts contracted for are based on the contractors' estimated cost of construction. At June 30, 2011 and 2010, total unpaid amounts on these contracts are approximately \$55 and \$736,408, respectively.

See independent auditors' report.

**REQUIRED SUPPLEMENTARY INFORMATION**

ROWLAND WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the years ended June 30, 2011 and 2010

**OTHER POST-EMPLOYMENT BENEFIT PLAN  
SCHEDULE OF FUNDING PROGRESS**

**Retiree Health Plan**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	Funded Ratio (b)/(a)	Estimated Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
07/01/09	\$ 4,645,724	\$ -	\$ 4,645,724	0.00%	\$ 1,964,000	236.54%

See independent auditors' report.

**OTHER SUPPLEMENTARY INFORMATION**

ROWLAND WATER DISTRICT

SCHEDULES OF OTHER OPERATING EXPENSES

For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u> (As Restated)
Engineering	\$ 5,198	\$ 17,400
Maintenance and operations	40,141	21,554
Small tools and supplies	21,024	20,248
Water tests	29,540	20,919
Certification, fees and permits	47,046	39,967
Water supply planning and development	<u>267,490</u>	<u>369,069</u>
 TOTAL OTHER OPERATING EXPENSES	 <u>\$ 410,439</u>	 <u>\$ 489,157</u>

See independent auditors' report.



ROWLAND WATER DISTRICT

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended June 30, 2011 and 2010

	2011	2010 (As Restated)
Salaries and wages	\$ 882,417	\$ 860,752
Payroll taxes	151,317	150,437
Insurance	587,848	566,693
Automobile expenses	71,634	60,613
Service charges	56,309	54,910
Office supplies and expenses	89,564	105,451
Utilities	54,657	62,799
Professional services	331,881	347,704
Membership fees and dues	38,599	37,411
Conferences and travel	58,930	55,606
Directors' fees and expenses	21,742	22,465
Public relations	52,325	17,195
Repairs and maintenance	6,361	5,667
Pension plan contributions	382,289	353,964
Other post employment benefits	410,541	396,376
Seminars and training	58,721	91,128
Conservation rebate program expenses	9,071	11,111
Taxes, permits and fees	6,261	11,973
Miscellaneous	37,138	27,348
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TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 3,307,605</u>	<u>\$ 3,239,603</u>

See independent auditors' report.