

ROWLAND WATER DISTRICT
FINANCIAL STATEMENTS
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2015

ROWLAND WATER DISTRICT

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June 30, 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rowland Water District
Rowland Heights, California

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund and fiduciary fund of the Rowland Water District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider internal control relevant to the District'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 District'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund and fiduciary fund of the Rowland Water District as of June 30, 2015 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Emphasis of Matters

As discussed in Notes 1d and 16 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 68, "*Accounting and Financial Reporting for Pensions*" and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68.*" The adoption of these standards required retrospective application resulting in a \$2,852,354 reduction of previously reported proprietary fund net position. In addition, as discussed in Note 16, previously reported proprietary fund net position was increased by \$805,538 to correct the beginning balances of other receivables, accounts payable, and other payables related to a joint venture project managed by the District. Also, the District is now reporting an other post-employment benefit (OPEB) fiduciary trust fund as part of its basic financial statements. Beginning net position of the fiduciary OPEB trust fund was \$1,415,139. Our opinions are not modified with respect to these matters.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions – defined benefit pension plan, and other post employment benefit plan schedule of funding progress, identified as required supplementary information 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of other operating expenses and schedule of general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of other operating expenses and schedule of general and administrative 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 schedule of other operating expenses and schedule of general and administrative expenses 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 December 8, 2015, on 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.

White Nelson Dick Evans LLP

Irvine, California
December 8, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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, 2015. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2015

- The District's total net position decreased by \$1,136,398 or 1.88 percent
- During the year, the District's total revenues decreased to \$21,637,440 or 1.40 percent, and total expenses decreased to \$20,727,582 or 8.03%.

Fiscal Year 2014

- The District's total net position decreased by \$535,573 or .88 percent
- During the year, the District's total revenues increased to \$21,945,277 or 11.54 percent, and total expenses increased to \$22,536,752 or 4.77 percent

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 Position 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 Position. 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, 2015

FINANCIAL ANALYSIS OF THE DISTRICT

Our analysis of the District begins on page 18 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 Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These statements report the net position of the District and changes in them. You can think of the District's net position - 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 position 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 POSITION

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

TABLE 1
Condensed Statements of Net Position

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change
Assets:			
Current, restricted and other assets	49,338,573	\$ 45,403,134	\$ 3,935,439
Capital assets	58,321,956	59,617,090	(1,295,134)
Total Assets	<u>107,660,529</u>	<u>105,020,224</u>	<u>2,640,305</u>
Liabilities:			
Current liabilities	3,756,611	4,469,452	(712,841)
Noncurrent liabilities	44,445,544	39,956,000	4,489,544
Total Liabilities	<u>48,202,155</u>	<u>44,425,452</u>	<u>3,776,703</u>
Net Position:			
Net investment in capital assets	36,828,271	41,272,337	(4,444,066)
Restricted	-	1,503,963	(1,503,963)
Unrestricted	22,630,103	17,818,472	4,811,631
Total Net Position	<u>\$ 59,458,374</u>	<u>\$ 60,594,772</u>	<u>\$ (1,136,398)</u>

As can be seen from Table 1, total assets decreased \$2,640,305 from fiscal year 2014 to 2015. The majority of the decrease comes from capital assets that saw a \$1,295,134 or 2.17% decrease from fiscal year 2014. Total Net Position saw a decrease of \$1,136,398 or 1.88% from the previous fiscal year.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

NET POSITION (CONTINUED)

Large projects completed during fiscal year 2015 included:

Whittier Booster Station and Pipeline

In an effort to secure water reliability for the customers of the Rowland Water District, the District entered into an agreement with California Domestic Water Company (CDWC) to utilize the District's allowed pumping allocation in the Central Basin and newly acquired export rights in the Main San Gabriel Basin to bring local groundwater supplies into the Rowland Water District distribution system. New infrastructure was required to connect the California Domestic Water Company water systems to the District's water system. The new infrastructure included the addition of approximately 15,000 feet of 24" pipeline and the construction of a 1,275 sq. ft. pump and chemical injection building referred to as the Whittier Booster Station.

CMMS Implementation

The District contracted with Westin Engineering Inc. to acquire, install and train District staff on the implementation of a Computer Maintenance Management System (CMMS). The CMMS is utilized to schedule and record all of the preventative maintenance of the District's capital assets.

Rowland Heights Community Center

Los Angeles County Department of Parks and Recreation chose Pathfinder Park for the home of the new Rowland Heights Community Center. The new community center at Pathfinder Community Regional Park in Rowland Heights includes a 19,500 square foot multi-purpose area, tennis and basketball courts, splash pad, as well a computer room. The total cost of the Rowland Heights Community Center was approximately \$18 million and was made possible with funding from the office of Fourth District Supervisor Don Knabe. Rowland Water District supported the effort by installing two (2) public fire hydrants, one six-inch (6") fire protection service, and a two and one half-inch (2 1/2") domestic water meter.

A further review shows total liabilities increased by \$3,776,703 or 8.50% from fiscal year 2014 to 2015. The majority of that increase was noncurrent liabilities which had an increase of \$4,489,544. There were two main reasons for this increase. The first being the District's refunding on its 2008 Certificate of Participation (COP) bond. This was refunded in September 2014 and lowered the District's annual interest payments by reducing the interest rates on the remaining certificates. The District will see annual savings of approximately \$140,000 per year, but by doing the refunding, the balance on the bond issuance increased as the majority of interest is paid in the beginning years of the term. The second reason is In reference to Government Accounting Standard Board (GASB) 68. This was a new mandate that went into effect this fiscal year in which the District's share of it California Public Employees Retirement System (CalPERS) net pension liability is recorded on its financial statements.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2015

NET POSITION (CONTINUED)

Rowland Heights Community Center (Continued)

Rowland Water District is an employer with fewer than 100 employees and is in a risk pool plan with CalPERS along with other smaller agencies. Each year each agency is assigned their portion of the plans net pension liability. For fiscal year 2014-2015, the District's portion was \$2,341,881.

TABLE 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change
Revenues:			
Operating revenues	\$ 20,664,408	\$ 21,000,529	\$ (336,121)
Nonoperating revenues	973,032	944,748	28,284
Total Revenues	<u>21,637,440</u>	<u>21,945,277</u>	<u>(307,837)</u>
Expenses:			
Operating expenses	18,759,821	20,504,612	(1,744,791)
Nonoperating expenses	1,967,761	2,032,140	(64,379)
Total Expenses	<u>20,727,582</u>	<u>22,536,752</u>	<u>(1,809,170)</u>
Income (loss) before Capital Contributions	909,858	(591,475)	1,501,333
Capital contributions	<u>560</u>	<u>55,902</u>	<u>(55,342)</u>
Change in Net Position	910,418	(535,573)	1,445,991
Beginning Net Position	<u>60,594,772</u>	<u>61,130,345</u>	<u>(535,573)</u>
Restatement	(2,046,816)		
Beginning Net Position, as Restated	<u>58,547,956</u>		
Ending Net Position	<u>\$ 59,458,374</u>	<u>\$ 60,594,772</u>	<u>\$ 910,418</u>

While the Statements of Net Position show the change in financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As can be seen in Table 2, Income before Capital Contributions of \$909,858 and Capital Contributions of \$506 resulted in an increase in ending net position of \$910,418 in fiscal year 2015.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

NET POSITION (CONTINUED)

A closer examination of the source of changes in Net Position reveals that the District's total revenues decreased by \$307,837 or 1.40% in fiscal year 2015. Of this amount, operating revenues decreased by \$336,121 or 1.60% and its nonoperating revenues increased by \$28,284 or 2.99% in the past fiscal year. The main factor attributing to the decrease in operating revenues was a decrease in water sales. The District had already been encouraging and enforcing water conservation for the entire fiscal year due to severe drought conditions in California. In September 2014 the Rowland Board of Directors adopted Resolution No. 9-2014 establishing a Level 2 Water Supply Shortage under the District's Water Conservation and Water Shortage Contingency Plan.

On April 1, 2015, Governor Jerry Brown directed the first mandatory water restriction in the state's history. Governor Jerry Brown called for an immediate mandatory 25% reduction in potable urban water use across the state. Rowland Water District's specific mandated conservation target was a 20% reduction in potable water use. The results of this were the District's total water sales decrease from approximately 12,619 acre feet in fiscal year 2013-2014 to 12,028 acre feet in fiscal year 2014-2015. The reduction in revenue would have been more significant if not for a rate increase that became effective on January 1, 2015. The base rate increased \$0.09 from \$2.62 to \$2.71 or 3.44% for potable customers. Water usage over 16 hcf is charged at a higher rate. The recycled water rate increased \$0.05 from \$1.61 to \$1.66 or 3.11%. The District promotes the use of recycled water so there is no cost increase for excess usage. The monthly service charge for standard 5/8" to 3/4" meters increased \$0.72 from \$24.24 to \$24.96 or 2.97%. The District continues to use a tiered rate structure that were implemented in January 2009. The tiered rates as of January 2015 were a base rate of \$2.71 for 1-16 hcf, \$3.11 for 17-23 hcf, and \$3.92 for 24+ hcf. The District has six different pumping zones. Pumping charges cover the energy costs to pump water to each zone of elevation over Zone 1. The additional pumping costs is added to the base rate if the property resides in Zone 2 through Zone 6.

Nonoperating revenues remained fairly constant in 2015. The District saw interest and dividend income of \$372,914, property tax revenues of \$309,832 and miscellaneous income of \$262,727. Miscellaneous income is mainly attributed to contract income for work the District provides on behalf of others. and shared services. This is income the District receives for sharing a service with another agency. The District had unrestricted cash and investments totaling \$18,439,476, ending the fiscal year, an increase of \$1,706,729 from 2014. This increase was caused by District projects being completed in the previous fiscal year that did not need additional revenues attributed to them in the current fiscal year. The District's cash and investments are held cash, short-term certificate of deposits (CD's), money market mutual funds, government bonds and treasury bills. A comparison for these types of investments can be the State of California Local Agency Investment Fund (LAIF). LAIF saw its yield increase from 0.23% in fiscal year 2014 to 0.30% ending fiscal year 2015.

While total operating revenues decreased by \$336,121 or 1.60%, operating expenses decreased by \$1,744,791 or 8.51%. This resulted in a change in net position of \$909,858 in fiscal year 2015. While the District saw total revenues decrease by \$336,121 from fiscal year 2015, Source of Supply costs decreased \$372,008 or 3.61% from fiscal year 2014. Source of Supply include the cost of potable and reclaimed water along with MWD and TVMWD fixed charges.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2015

NET POSITION (CONTINUED)

The average cost of an acre foot of water increased from \$875 in 2014 to \$899 in 2015. Fixed charges increased 30.27% from fiscal year 2014 to 2015. General and administrative expense saw a increase of \$108,143 or 2.77%. Depreciation for fiscal year 2015 was \$2,183,237. The District does continue to fund 80% of depreciation of Rowland Water District assets through its rates and charges.

BUDGETARY HIGHLIGHTS

TABLE 3
Budget vs. Actual

	Fiscal Year 2015		
	Actual	Budget	Variance
Revenues:			
Operating revenues	\$ 20,664,408	\$ 20,575,000	\$ 89,408
Nonoperating revenues	973,032	625,000	348,032
Total Revenues	<u>21,637,440</u>	<u>21,200,000</u>	<u>437,440</u>
Expenses:			
Operating Expenses:			
Source of supply	10,300,706	10,675,000	374,294
Pumping and power	928,486	885,000	(43,486)
Transmission and distribution	934,248	1,085,000	150,752
Customer services	118,456	140,000	21,544
Depreciation expenses	2,183,237	-	(2,183,237)
Other operating expenses	285,663	265,000	(20,663)
General and administrative expenses	4,009,025	3,921,000	(88,025)
Total Operating Expenses	<u>18,759,821</u>	<u>16,971,000</u>	<u>(1,788,821)</u>
Nonoperating expenses	<u>1,967,761</u>	<u>2,800,000</u>	<u>832,239</u>
Total Expenses	<u>20,727,582</u>	<u>19,771,000</u>	<u>(956,582)</u>
Capital Contributions	<u>560</u>	<u>-</u>	<u>560</u>
Change in Net Position	<u>\$ 910,418</u>	<u>\$ 1,429,000</u>	<u>\$ (518,582)</u>

In looking at Table 3, Budget vs. Actual, the discrepancy in net income over budgeted change in net position and change in net position is \$(518,582) or 36.29%. Total Revenues shows a positive variance of \$437,440 or 2.1% from actual. Total operating expenses saw a negative variance of \$1,788,821 or 4.84% when depreciation expense is included since it is not a direct expense. Nonoperating expenses saw a positive variance of \$832,239 This was caused by the 2014 Bond Refunding that saw an interest payment to be pushed back.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2015, the District had invested \$58,321,956 in a broad range of Infrastructure as shown in Table 4.

TABLE 4
Capital Assets

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change
Capital assets, not being depreciated:			
Land	\$ 261,340	\$ 261,340	\$ -
Water rights	5,000	5,000	-
Construction in progress	1,162,307	864,310	297,997
Total capital assets, not being depreciated	<u>1,428,647</u>	<u>1,130,650</u>	<u>297,997</u>
Capital assets, being depreciated:			
Intangible plant	1,022,551	1,022,551	-
Sources of supply plant	2,076,956	2,058,703	18,253
Pumping plant	10,037,819	10,037,819	-
Transmission and distribution plant	63,116,434	62,774,393	342,041
Telemetry equipment	1,354,235	1,354,235	-
General plant	570,451	570,451	-
Office building and equipment	6,108,622	6,056,639	51,983
Transportation equipment	888,066	790,997	97,069
Communication equipment	133,902	133,902	-
Total capital assets, being depreciated	85,309,036	84,799,690	509,346
Less accumulated depreciation	<u>(28,415,727)</u>	<u>(26,313,250)</u>	<u>(2,102,477)</u>
Total capital assets, being depreciated, net	<u>56,893,309</u>	<u>58,486,440</u>	<u>(1,593,131)</u>
Total capital assets, net	<u>\$ 58,321,956</u>	<u>\$ 59,617,090</u>	<u>\$(1,295,134)</u>

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, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

DEBT ADMINISTRATION

At the end of fiscal year 2015, the District had noncurrent liabilities totaling \$43,659,174 as shown in Table 5.

**TABLE 5
Noncurrent Liabilities**

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Refunding Bond Series 2014A	\$ 20,673,940	\$ -	\$ 20,673,940
Certificates of Participation, net	-	18,949,753	(18,949,753)
Installment Purchase Contract payable, net	20,118,554	20,949,205	(830,651)
Compensated absences	255,689	312,516	(56,827)
Net Pension Liability	2,341,881	-	2,341,881
Accrued net OPEB obligation	<u>269,110</u>	<u>459,526</u>	<u>(190,416)</u>

The District currently has five sources of Noncurrent Liabilities in 2015. The Refunding Bond series 2014A is a refunding of the Certificate of Participation (COP) issued January 2009 that were 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 schools, parks, industrial buildings, etc. In November 2012, the District entered into an installment purchase contract with Puente Basin Water Agency in order to finance the acquisition of certain water system improvements. The liability is payable over the next thirty years. The decrease in compensated absences is attributed to less sick and vacation time being due to current employees. The District also had three long term employees retire during the fiscal year. The 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. The Net 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 funding a GASB 45 trust to help offset the future cost of Other Post Employment Benefits.

Additional information on the District's noncurrent liabilities can be found in Notes 6 - 9 and 11 of the notes to basic financial statements.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2015

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 2015 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 2016 Budget vs. Fiscal Year 2015 Actual

	Fiscal Year 2015 Actual	Fiscal Year 2016 Budget	Variance
Revenues:			
Operating revenues	\$ 20,664,408	\$ 21,875,000	\$ 1,210,592
Nonoperating revenues	973,032	575,000	(398,032)
Total Revenues	<u>21,637,440</u>	<u>22,450,000</u>	<u>812,560</u>
Expenses:			
Operating Expenses:			
Source of supply	10,300,706	10,695,000	(394,294)
Pumping and power	928,486	1,085,000	(156,514)
Transmission and distribution	934,248	1,080,000	(145,752)
Customer services	118,456	155,000	(36,544)
Depreciation expenses	2,183,237	-	2,183,237
Other operating expenses	285,663	320,000	(34,337)
General and administrative expenses	4,009,025	4,185,000	(175,975)
Total Operating Expenses	<u>18,759,821</u>	<u>17,520,000</u>	<u>1,239,821</u>
Nonoperating expenses	<u>1,967,761</u>	<u>2,450,000</u>	<u>(482,239)</u>
Total Expenses	<u>20,727,582</u>	<u>19,970,000</u>	<u>757,582</u>
Capital Contributions	<u>560</u>	<u>-</u>	<u>(560)</u>
Change in Net Position	<u>\$ 910,418</u>	<u>\$ 2,480,000</u>	<u>\$ 1,569,582</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2015

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.

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BASIC FINANCIAL STATEMENTS

ROWLAND WATER DISTRICT
STATEMENT OF NET POSITION

June 30, 2015

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$ 3,837,646
Investments	14,601,830
Accounts receivable, net of allowance for doubtful accounts of \$30,000	2,603,313
Interest receivable	30,325
Supply inventories	118,234
Water in storage	2,475,538
Prepaid items	47,915

TOTAL CURRENT ASSETS	23,714,801
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RESTRICTED ASSETS:

Cash and cash equivalents	483,345
Investments	9,922,909
Escrow deposits	104,528

TOTAL RESTRICTED ASSETS	10,510,782
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CAPITAL ASSETS:

Capital assets, not being depreciated	1,428,647
Capital assets, being depreciated, net	56,893,309

TOTAL CAPITAL ASSETS, NET	58,321,956
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OTHER NONCURRENT ASSETS:

Investment in joint ventures	11,134,886
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TOTAL ASSETS	103,682,425
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DEFERRED OUTFLOWS OF RESOURCES:

Deferred amounts from pension plans	334,790
Deferred amounts on refunding	3,643,314

TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,978,104
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(Continued)

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENT OF NET POSITION
(CONTINUED)

June 30, 2015

LIABILITIES:

CURRENT LIABILITIES (PAYABLE FROM
UNRESTRICTED ASSETS):

Accounts payable	\$ 2,201,844
Interest payable	131,287
Current portion of installment purchase contract payable	395,000
Current portion of 2014A refunding bonds payable	485,000
	<u>3,213,131</u>

CURRENT LIABILITIES (PAYABLE FROM
RESTRICTED ASSETS):

Retentions payable	104,528
Refundable customer deposits	182,035
Unearned construction advances	256,917
	<u>543,480</u>

TOTAL CURRENT LIABILITIES 3,756,611

NONCURRENT LIABILITIES:

Compensated absences	255,689
Net OPEB obligation	269,110
Installment purchase contract payable	20,118,554
2014A refunding bonds payable	20,673,940
Net pension liability	2,341,881
	<u>43,659,174</u>

TOTAL NONCURRENT LIABILITIES 43,659,174

TOTAL LIABILITIES 47,415,785

DEFERRED INFLOWS OF RESOURCES:

Deferred amounts from pension plans	<u>786,370</u>
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NET POSITION:

Net investment in capital assets	36,828,271
Unrestricted	<u>22,630,103</u>

TOTAL NET POSITION \$ 59,458,374

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the year ended June 30, 2015

OPERATING REVENUES:

Water sales:	
Residential	\$ 7,600,766
Business	5,702,646
Public entities	239,990
Industrial	12,723
Reclaimed water	709,445
Other	46,719
	<hr/>
Total water sales	14,312,289
	<hr/>

Water services:

Water service charges	6,086,123
Nonrefundable new service fees	42,375
Reconnection fees	23,430
Customer penalties	189,495
Other	10,696
	<hr/>
Total water services	6,352,119
	<hr/>

TOTAL OPERATING REVENUES	<hr/> 20,664,408
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OPERATING EXPENSES:

Source of supply	10,300,706
Pumping and power	928,486
Transmission and distribution	934,248
Customer services	118,456
Depreciation expense	2,183,237
Other operating expenses	285,663
General and administrative expenses	4,009,025
	<hr/>

TOTAL OPERATING EXPENSES	<hr/> 18,759,821
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OPERATING INCOME	<hr/> 1,904,587
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(Continued)

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
(CONTINUED)

For the year ended June 30, 2015

	2015
NONOPERATING REVENUES (EXPENSES):	
Investment income:	
Interest and dividend income	\$ 372,914
Realized and unrealized loss on investments	(104,194)
Property tax revenues	309,832
Gain on disposition of assets	14,195
Miscellaneous income	262,727
Interest expense	(1,648,312)
Debt issuance costs	(215,255)
Amortization of debt premium/(discount)	4,879
Gain from investment in joint ventures	8,485
 TOTAL NONOPERATING REVENUES (EXPENSES)	 (994,729)
 NET INCOME BEFORE CAPITAL CONTRIBUTIONS	 909,858
 CAPITAL CONTRIBUTIONS:	
Contributions from developers	560
 CHANGE IN NET POSITION	 910,418
 NET POSITION - BEGINNING OF YEAR, AS RESTATED	 58,547,956
 NET POSITION - END OF YEAR	 \$ 59,458,374

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 20,958,036
Cash payments to suppliers for goods and services	(14,121,247)
Cash payments to employees for services	<u>(2,721,754)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,115,035</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Proceeds from property taxes	309,832
Other receipts	<u>262,727</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>572,559</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(888,103)
Proceeds from sale of capital assets	14,195
Change in deferred construction advances	93,032
Principal payments on debt	(935,000)
Interest paid	(1,339,718)
Proceeds from debt premium	1,686,785
Proceeds from issuance of debt	20,060,000
Payment to refunding debt escrow agent	(23,014,683)
Payment of debt issuance costs	(215,255)
Capital contributions received	<u>560</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,538,187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Contributions to joint ventures	(6,443,451)
Purchases of investments	(27,614,035)
Proceeds from sale of investments	30,587,456
Investment income	<u>383,001</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(3,087,029)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,937,622)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>7,258,613</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,320,991</u>

See accompanying notes to basic financial statements.

(Continued)

ROWLAND WATER DISTRICT
 STATEMENTS OF CASH FLOWS
 (CONTINUED)

For the year ended June 30, 2015

	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 1,904,587
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,183,237
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	300,315
(Increase) decrease in other receivables	397,985
(Increase) decrease in supply inventories	17,963
(Increase) decrease in water in storage	(1)
(Increase) decrease in prepaid items	2,510
(Increase) decrease in escrow deposits	(104,528)
(Increase) decrease in deferred outflows of resources from pension plans	365,048
Increase (decrease) in accounts payables	(357,738)
Increase (decrease) in retentions payable	83,528
Increase (decrease) in refundable customer deposits	(6,687)
Increase (decrease) in compensated absences	(56,827)
Increase (decrease) in accrued net OPEB obligation	(190,416)
Increase (decrease) in net pension liability	(1,210,311)
Increase (decrease) in deferred inflows of resources from pension plans	786,370
	\$ 4,115,035
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,115,035
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:	
Amortization of debt premiums/discounts and deferred amount on refunding	\$ 88,496
NONCASH INVESTING ACTIVITIES:	
Gain (loss) from investment in joint ventures	\$ 8,485

See accompanying notes to basic financial statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

ROWLAND WATER DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2015

	Other Post-Employment Benefit (OPEB) Trust Fund
ASSETS:	
Investments	\$ 1,877,541
TOTAL ASSETS	1,877,541
NET POSITION:	
Held in trust for OPEB benefits	1,877,541
TOTAL NET POSITION	\$ 1,877,541

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2015

	Other Post-Employment Benefit (OPEB) Trust Fund
ADDITIONS:	
Employer contributions	\$ 541,667
Investment income	46,771
	<hr/>
TOTAL ADDITIONS	588,438
	<hr/>
DEDUCTIONS:	
Distributions	121,667
Administrative expense	4,369
	<hr/>
TOTAL DEDUCTIONS	126,036
	<hr/>
CHANGE IN NET POSITION	462,402
	<hr/>
NET POSITION - BEGINNING OF YEAR, AS RESTATED	1,415,139
	<hr/>
NET POSITION - END OF YEAR	\$ 1,877,541
	<hr/> <hr/>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

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 City of West Covina. The service area's population is approximately 60,000.

b. Basis of Presentation:

The District's activities, other than those that are fiduciary in nature, 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.

The District's fiduciary activities related to its other post-employment benefit (OPEB) plan are accounted for in a fiduciary fund.

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 proprietary fund financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting." Under the economic measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. 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.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus and Basis of Accounting (Continued):

Fiduciary Funds:

The fiduciary fund financial statements are accounted for using the economic resources measurement focus and accrual basis of accounting. All assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Fiduciary Net Position. The Statement of Changes in Fiduciary Net Position presents increases (additions) and decreases (deductions) in total fiduciary net position. Under the accrual basis of accounting, additions are reported when earned and deductions are recorded when a liability is incurred, regardless of the timing of related cash flows.

d. New Accounting Pronouncements:

GASB Current Year Standards:

In fiscal year 2014-2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*" and GASB Statement No. 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard decreased the proprietary fund net position at July 1, 2014 by \$2,852,354.

GASB Statement No. 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the District.

GASB Pending Accounting Standards:

GASB has issued the following statements which may impact the Commission's financial reporting requirements in the future:

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

- GASB 73 - “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*”, effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, effective for periods beginning after June 15, 2016.
- GASB 75 - “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”, effective for periods beginning after June 15, 2017.
- GASB 76 - “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*”, effective for periods beginning after June 15, 2015.

e. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The District has three items that qualify for reporting in this category. The first item is the deferred outflow related to the pension plans. This amount is equal to employer contributions made after the measurement date of the net pension liability. The second item is a deferred outflow related to the pension plans for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014), which is 3.8 years. The third item is a deferred amount on refunding. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is amortized over the life of the refunding debt, which is 26 years.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, which is a deferred inflow related to the pension plans resulting from the difference in projected and actual earnings on investments of the pension plan. This amount is amortized over five years.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Net Position:

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

- Net investment in capital assets - This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted net position - This component of net position consists of constraints placed on net position 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 position - This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted”.

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.

g. 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.

h. 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.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Cash and Cash Equivalents:

For purposes of the statements 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.

j. 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 position.

k. Restricted Assets:

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

l. 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.

m. 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.

n. 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 as follows: 5 years for computers, vehicles, office equipment and furniture; 10 years for forklifts; 15 years for hydrants; 20 years for meters; and, 75 years for mains. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

o. Capitalized Interest:

The District incurred interest charges on long-term debt totaling \$1,677,883 for the year ended June 30, 2015. No interest has been capitalized as additions to the cost of construction for the year ended June 30, 2015.

p. 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.

q. Unearned Construction Advances and Capital Contributions:

Construction advances from developers are unearned during the period of construction. When a project is completed, the applicable revenues earned 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.

r. 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. 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

s. Compensated Absences:

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

t. 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, 2015, 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.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

u. Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

v. Use of Estimates:

The preparation of financial statements in accordance 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.

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2015 are reported in the accompanying statements of net position as follows:

	Government Wide Statement of <u>Net Position</u>	Fiduciary Fund Statement of <u>Net Position</u>	<u>Total</u>
Financial Statement Classification:			
Unrestricted:			
Cash and cash equivalents	\$ 3,837,646	\$ -	\$ 3,837,646
Investments	14,601,830	1,877,541	16,479,371
Restricted:			
Cash and cash equivalents	483,345	-	483,345
Investments	<u>9,922,909</u>	<u>-</u>	<u>9,922,909</u>
Total Cash and Investments	<u>\$ 28,845,730</u>	<u>\$ 1,877,541</u>	<u>\$ 30,723,271</u>

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Cash and investments as of June 30, 2015 consisted of the following:

	<u>District Funds</u>	<u>OBEP Trust</u>	<u>Total</u>
Cash on hand	\$ 400	\$ -	\$ 400
Demand deposits	961,625	-	961,625
Time deposits	498,000	-	498,000
Investments	<u>27,385,705</u>	<u>1,877,541</u>	<u>29,263,246</u>
Total cash and cash equivalents	<u>\$ 28,845,730</u>	<u>\$ 1,877,541</u>	<u>\$ 30,723,271</u>

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 (Negotiable CD)	5 years	30%	5%
CD Placement Service	5 years	30%	None
Bankers Acceptances	180 days	40%	30%
Reverse Purchase Agreement	92 days	20%	None
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%
Collateralized Bank Deposits	5 years	None	None
Bank/Time Deposits	5 years	None	None

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

N/A - Not Applicable

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Government Sponsored Agency Securities:			
Federal Home Loan Bank (FHLB)	None	None	None
Federal Home Loan Mortgage Corporation (FHLMC)	None	None	None
Federal National Mortgage Association (FNMA)	None	None	None
Federal Farm Credit Bank (FFCB)	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

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

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.

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, 2015.

Investment Type	Remaining Maturity (in Years)				Fair Value Total
	Less Than 1 year	1 to 2 Years	2 to 3 Years	3 to 5 Years	
District Investments:					
U.S. Treasury Notes	\$ 253,730	\$ 756,408	\$ 448,461	\$ 2,854,977	\$ 4,313,576
U.S. Government Sponsored Agency Securities:					
FFCB	-	-	-	236,825	236,825
FHLMC	-	972,098	1,184,816	543,408	2,700,322
FNMA	250,408	1,445,521	3,218,300	247,965	5,162,194
Negotiable CD	739,373	951,539	-	-	1,690,912
LAIF	3,218,546	-	-	-	3,218,546
Money Market Mutual Funds	96,028	-	-	-	96,028
Held by Trustee:					
U.S. Treasury Notes	-	1,458,903	997,030	-	2,455,933
U.S. Government Sponsored Agency Securities:					
FHLMC	2,851,515	990,957	1,002,360	-	4,844,832
FNMA	-	1,487,287	-	-	1,487,287
LAIF	44,422	-	-	-	44,422
Money Market Mutual Funds	1,134,828	-	-	-	1,134,828
OPEB Trust Investments:					
PARS	1,877,541	-	-	-	1,877,541
	<u>\$ 10,466,391</u>	<u>\$ 8,062,713</u>	<u>\$ 6,850,967</u>	<u>\$ 3,883,175</u>	<u>\$ 29,263,246</u>

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

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, 2015. U.S. treasury notes and bills are not required to be rated and, therefore, have been excluded from the tables below.

Investment	Minimum Legal Rating	Total as of June 30, 2015	AAA	AA+	Unrated
District Investments:					
U.S. Government					
Sponsored Agency Securities:					
FFCB	N/A	\$ 236,825	\$ -	\$ 236,825	\$ -
FHLMC	N/A	2,700,322	-	2,700,322	-
FNMA	N/A	5,162,194	-	5,162,194	-
Negotiable CD	N/A	1,690,912	1,690,912	-	-
LAIF	N/A	3,218,546	-	-	3,218,546
Money Market Mutual Funds	A	96,028	96,028	-	-
Held by Trustee:					
U.S. Government					
Sponsored Agency Securities:					
FHLMC	N/A	4,844,831	-	4,844,831	-
FNMA	N/A	1,487,287	-	1,487,287	-
LAIF	N/A	44,422	-	-	44,422
Money Market Mutual Funds	A	1,134,709	1,134,709	-	-
OPEB Trust Investments:					
PARS	N/A	<u>1,877,541</u>	<u>-</u>	<u>-</u>	<u>1,877,541</u>
		<u>\$ 22,493,617</u>	<u>\$ 2,921,649</u>	<u>\$ 14,431,459</u>	<u>\$ 5,140,509</u>

Concentration of Credit Risk:

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

Issuer	Investment Type	
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Agency Securities	\$7,545,153
Federal National Mortgage Association	U.S. Government Sponsored Agency Securities	\$6,649,481

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

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, 2015, the District's deposits were covered by the Federal Deposit Insurance Corporation insurance limits or collateralized as required by California law.

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.

Investments - Other Post-Employment Benefit (OPEB) Trust:

The District established a trust account with Public Agency Retirement Services (PARS) to hold assets that are legally restricted for use in administering the District's other post-employment benefit (OPEB) health plan. The OPEB Trust's specific cash and investments are managed by a third-party portfolio manager and invested under a pool arrangement using certain investment guidelines offered by PARS and approved by the District.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Investments - Other Post-Employment Benefit (OPEB) Trust (Continued):

Those investment guidelines approved by the District are as follows:

Risk Tolerance:	Moderate
Time Horizon:	Long-Term
Income or Liquidity Needs:	As Requested
Account of Trust Restrictions:	None
Unique Needs and Circumstances:	None
Investment Objective:	Moderate Index Plus
Strategic Ranges:	0% - 20% Cash 40% - 60% Fixed Income 40% - 60% Equity

Acceptable Investments:

The following is a list of acceptable investments:

Equity Securities:	Fixed Income Mutual Funds:
Domestic	Corporate
American Depository Receipts (ADRs)	Government
Equity Mutual Funds:	High Yield
Large Cap Growth and Value	International and Emerging Market
Mid Cap Core	Convertible
Small Cap Growth and Value	Preferred
International and Emerging Markets	Closed End Funds
REITs	Cash and Cash Equivalents:
Exchange Traded Funds (ETFs)	Money Market Mutual Fund
Fixed Income Securities:	Commercial Paper
Government/Agencies	CDs and Bankers Acceptance
Mortgage Backed Bonds	
Corporate Bonds and Notes	
Unit Trusts	

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Investments - Other Post-Employment Benefit (OPEB) Trust (Continued):

Fixed Income Guidelines:

The fixed income guidelines consist of (a) the long-term fixed income investments (greater than seven years in maturity) shall constitute no more than 20%, and as little as 0% of the total Plan assets, (b) the intermediate-term fixed income investments (between three and seven years in maturity) shall constitute no more than 60%, nor less than 20% of the total Plan assets, (c) the high-yield portion of the Plan shall constitute no more than 10%, and as little as 0% of the total Plan assets, (d) the convertible bond exposure shall constitute no more than 10%, and as little as 0% of the total Plan assets, and (e) the short-term fixed income investments (between one and three years in maturity) shall constitute no more than 20%, and as little as 0% of the total Plan assets.

Equity Guidelines:

The equity guidelines consist of (a) the domestic large cap equity investments of the Plan shall constitute no more than 50% nor less than 20% of the total Plan assets, (b) the domestic mid-capitalization equity investments of the Plan shall constitute no more than 20%, and as little as 0% of the total Plan assets, (c) the domestic small capitalization equity investments of the Plan shall constitute no more than 20%, nor less than 0% of the total Plan assets, (d) the international equity investments of the Plan shall constitute no more than 20% and as little as 0% of the total Plan assets, and (e) the real estate investments of the Plan shall constitute no more than 10%, and as little as 0% of the total Plan assets.

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, 2015</u>
Escrow deposits	Payment of construction retentions	\$ 104,528
Deposits from customers	Security deposits for payment of utility bills	182,035
Customer advances	Construction	256,917
Bond proceeds	Construction projects	<u>9,967,302</u>
		<u>\$ 10,510,782</u>

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014	Additions	Retirements Transfers	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 261,340	\$ -	\$ -	\$ 261,340
Water rights	5,000	-	-	5,000
Construction in progress	<u>864,310</u>	<u>554,794</u>	<u>(256,797)</u>	<u>1,162,307</u>
Total capital assets, not being depreciated	<u>1,130,650</u>	<u>554,794</u>	<u>(256,797)</u>	<u>1,428,647</u>
Capital assets, being depreciated:				
Intangible plant	1,022,551	-	-	1,022,551
Sources of supply plant	2,058,703	18,253	-	2,076,956
Pumping plant	10,037,819	-	-	10,037,819
Transmission and distribution plant	62,774,393	342,041	-	63,116,434
Telemetry equipment	1,354,235	-	-	1,354,235
General plant	570,451	-	-	570,451
Office building and equipment	6,056,639	56,224	(4,241)	6,108,622
Transportation equipment	790,997	173,588	(76,519)	888,066
Communication equipment	<u>133,902</u>	<u>-</u>	<u>-</u>	<u>133,902</u>
Total capital assets, being depreciated	84,799,690	590,106	(80,760)	85,309,036
Less accumulated depreciation	<u>(26,313,250)</u>	<u>(2,183,237)</u>	<u>80,760</u>	<u>(28,415,727)</u>
Total capital assets, being depreciated, net	<u>58,486,440</u>	<u>(1,593,131)</u>	<u>-</u>	<u>56,893,309</u>
Total capital assets, net	<u>\$ 59,617,090</u>	<u>\$ (1,038,337)</u>	<u>\$ (256,797)</u>	<u>\$ 58,321,956</u>

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

5. INVESTMENT IN 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 records its investment in the Puente Basin Water Agency as an other noncurrent asset, Investment in Joint Ventures. The changes in its investment in Puente Basin Water Agency consisted of the following as of June 30, 2015:

Beginning of year	\$ 4,031,668
Contributions	6,443,451
Share of loss	<u>(24,862)</u>
End of year	<u>\$ 10,450,257</u>

The following is condensed financial information of the investment in Puente Basin Water Agency as of and for the year ended June 30, 2015 including the participants' approximate percentage shares:

	<u>Amount</u>	<u>Walnut Valley Water District</u>	<u>Rowland Water District</u>
Total assets	\$ 59,665,024	50.0%	50.0%
Total liabilities	38,764,510	50.0%	50.0%
Total equity	8,063,337	50.0%	50.0%
Billings to participants	16,817,852		

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

5. INVESTMENT IN JOINT VENTURES (CONTINUED):

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 year ended June 30, 2015, the District remitted assessments of \$44,073, for their 20.0% capacity rights and their share of future replacement costs. Also, the District purchased water totaling \$4,946,825, from the Commission during the year ended June 30, 2015.

Upon dissolution of the Commission, the net position 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 records its investment in the Pomona-Walnut-Rowland Joint Waterline Commission Agency as an other noncurrent asset, Investment in Joint Ventures, primarily capital assets. The changes in its investment in Pomona-Walnut-Rowland Joint Waterline Commission consisted of the following:

Beginning of year	\$ 651,282
Share in income	<u>33,347</u>
End of year	<u>\$ 684,629</u>

The following is condensed financial information of the investment in Pomona-Walnut-Rowland Joint Waterline Commission as of and for the year ended June 30, 2015 including the participants' approximate percentage shares:

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

5. INVESTMENT IN JOINT VENTURES (CONTINUED):

Pomona-Walnut-Rowland Joint Water Line Commission (Continued):

	<u>Amount</u>	<u>City of Pomona</u>	<u>Walnut Valley Water District</u>	<u>Rowland Water District</u>
Total assets	\$5,239,818	27.5%	43.9%	27.5%
Total liabilities	2,837,610	27.5%	43.9%	27.5%
Total equity	2,402,208	27.5%	43.9%	27.5%
Water billings to participants	17,029,370			

6. 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 was 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.

In September 2014, the Certificates were refinanced with the 2014 Water Revenue Refunding Bonds, Series 2014A described in Note 7.

7. WATER REVENUE REFUNDING BONDS, SERIES 2014A:

Water Revenue Refunding Bonds, Series 2014A were issued on September 18, 2014, in the amount of \$20,060,000 to refund \$19,105,000 of outstanding balance on the 2008 Certificates of Participation. The prior obligations were issued to finance certain improvements to the Enterprise. The District completed the advance refunding, to reduce its total debt service over the next 26 years by \$3,455,528 and to obtain an economic gain (difference between to the present values of the old and new debt service payments) of \$2,659,410.

These bonds mature in various amounts through December 1, 2039. The balance outstanding as of June 30, 2015 is \$19,105,000. The Bonds were issued at a premium of \$1,686,785, which is being amortized over the life of the debt on a straight-line basis.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

7. WATER REVENUE REFUNDING BONDS, SERIES 2014A (CONTINUED):

Interest is payable semi-annually on December 1 and June 1 at rates ranging from 2.00% to 5.00%. The installment payments on these bonds are secured by a first priority lien on the Net Revenues of the District. The following is a summary of the changes in Water Revenue Refunding Bonds, Series 2014A bonds for the year ended June 30, 2015:

	<u>Balance at</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
Water Revenue Refunding Bonds, Series 2014A	\$ -	\$ 20,060,000	\$ (550,000)	\$ 19,510,000	\$ 485,000
Add: Unamortized Premium	-	<u>1,686,785</u>	<u>(37,845)</u>	<u>1,648,940</u>	-
TOTAL	<u>\$ -</u>	<u>\$ 21,746,785</u>	<u>\$ (587,845)</u>	<u>\$ 21,158,940</u>	<u>\$ -</u>

Maturities of the Water Revenue Refunding Bonds, Series 2014A and interest payments subsequent to June 30, 2015 as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 485,000	\$ 808,094	\$ 1,293,094
2017	495,000	795,819	1,290,819
2018	510,000	780,744	1,290,744
2019	525,000	765,219	1,290,219
2020	540,000	749,244	1,289,244
2021 - 2025	3,045,000	3,411,019	6,456,019
2026 - 2030	3,685,000	2,794,603	6,479,603
2031 - 2035	4,480,000	2,011,888	6,491,888
2036 - 2039	<u>5,745,000</u>	<u>747,375</u>	<u>6,492,375</u>
Total	<u>\$ 19,510,000</u>	<u>\$ 12,864,005</u>	<u>\$ 32,374,005</u>

8. INSTALLMENT PURCHASE CONTRACT PAYABLE:

On November 1, 2012, the Puente Basin Water Agency issued \$19,835,000 in water revenue bonds, 2012 Series A in order to finance the acquisition of certain water system improvements of the Rowland Water District. Proceeds of the bonds including \$1,570,182 of bond premium were loaned to the District pursuant to an installment purchase contract entered into concurrently with the bonds issuance.

The bond premium is being amortized and recognized as interest expense over the life of the debt on a straight-line basis. The installment purchase contract payments mirror the debt service payments on the water revenue bonds. Interest is payable semi-annually on December 1 and June 1 at rates ranging from 2.00% to 5.00%.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

8. INSTALLMENT PURCHASE CONTRACT PAYABLE (CONTINUED):

The District's obligation to make installment payments is a special obligation of the District payable solely from the net revenues of the District. The following is a summary of the installment purchase contract for the year ended June 30, 2015:

	Balance at June 30, 2014	Additions	Reductions	Balance at June 30, 2015	Due Within One Year
Installment purchase Contract	\$ 19,455,000	\$ -	\$ (385,000)	\$ 19,070,000	\$ 395,000
Add: Unamortized premium	<u>1,494,205</u>	<u>-</u>	<u>(50,651)</u>	<u>1,443,554</u>	<u>-</u>
TOTAL	<u>\$ 20,949,205</u>	<u>\$ -</u>	<u>\$ (435,651)</u>	<u>\$ 20,513,554</u>	<u>\$ 395,000</u>

Maturities of the installment purchase contract and interest payments subsequent to June 30, 2015 as follows:

Year Ending	Principal	Interest	Total
2016	\$ 395,000	\$ 756,575	\$ 1,151,575
2017	410,000	742,450	1,152,450
2018	425,000	725,750	1,150,750
2019	445,000	710,575	1,155,575
2020	460,000	694,700	1,154,700
2021 - 2025	2,585,000	3,177,600	5,762,600
2026 - 2030	3,105,000	2,657,375	5,762,375
2031 - 2035	3,630,000	2,139,325	5,796,325
2036 - 2040	4,400,000	1,368,500	5,768,500
2041 - 2042	<u>3,215,000</u>	<u>246,375</u>	<u>3,461,375</u>
Total	<u>\$ 19,070,000</u>	<u>\$ 13,219,225</u>	<u>\$ 32,289,225</u>

9. COMPENSATED ABSENCES:

In accordance with the District's policy, employees may accrue up to 240 hours of vacation. For the year ended June 30, 2015, the total accrued vacation liability for all employees totaled \$142,026.

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.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

9. COMPENSATED ABSENCES (CONTINUED):

The District has modified the Employment Agreement in regards to the General Manager's sick leave benefits. The General Manager shall receive the same sick leave benefits, upon the same terms and conditions, as provided to all other District employees. For the year ended June 30, 2015, the total accrued sick leave liability for all employees totaled \$113,663.

10. 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.

11. DEFINED BENEFIT PENSION PLANS:

a. General Information about the Pension Plans:

Plan Descriptions:

All qualified permanent and probationary employees are eligible to participate in the District's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided:

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age fifty (50) with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

11. DEFINED BENEFIT PENSION PLANS (CONTINUED):

a. General Information about the Pension Plans:

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to July 13, 2012	PEPRA On or After January 1, 2013
Hire date	July 13, 2012	January 1, 2013
Benefit formula	2.5% @55	2% @62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	18.804%	6.25%

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans 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 to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

11. DEFINED BENEFIT PENSION PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 2,341,881</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for all Plans as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2013	0.10841%
Proportion - June 30, 2014	0.09476%
Change - Increase (Decrease)	-0.01365%

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

11. DEFINED BENEFIT PENSION PLANS (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

For the year ended June 30, 2015, the District recognized pension expense of \$275,897. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 334,790	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(7,621)
Net differences between projected and actual earnings on plan investments	-	(778,749)
Total	<u>\$ 334,790</u>	<u>\$ (786,370)</u>

\$334,790 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

Year Ending June 30,	Amount
2016	\$ (197,409)
2017	(197,409)
2018	(196,865)
2019	(194,687)
2020	-
Thereafter	-
Total	<u>\$ (786,370)</u>

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

11. DEFINED BENEFIT PENSION PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Actuarial Assumptions:

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Discount Rate:

The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

11. DEFINED BENEFIT PENSION PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (Continued):

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such a change in our methodology occurs.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

11. DEFINED BENEFIT PENSION PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (Continued):

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

11. DEFINED BENEFIT PENSION PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

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

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.50%
Net Pension Liability	\$ 4,207,587
Current Discount Rate	7.50%
Net Pension Liability	\$ 2,341,881
1% Increase	8.50%
Net Pension Liability	\$ 793,521

Pension Plans Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

- c. Payable to the Pension Plans:

At June 30, 2015, the District had no outstanding amount of contributions to the pension plans due for the year ended June 30, 2015.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

12. 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 24 active employees and 8 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 CalPERS on or after age 50 with at least 15 years of continuous service. The District provides 100% of the cost of coverage for the retiree and any covered spouse.

Employees hired on or after July 1, 2012 are eligible for a District contribution if retiring from the District and under CalPERS on or after age 62 with at least 15 years of continuous District service. The District provides 100% of the cost of coverage for the retiree only.

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 year ended June 30, 2015, the District paid \$121,667 in health care costs for its retirees and their covered dependents. In addition the District made a \$420,000 contribution to a trust account established to fund the District's net OPEB obligation for the year ended June 30, 2015.

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.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

12. 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:

Annual required contribution	\$ 353,401
Interest on net OPEB obligation	29,869
Adjustment to annual required contribution	<u>(32,019)</u>
Annual OPEB cost (expense)	351,251
Actual contributions made	<u>(541,667)</u>
Increase (decrease) in net OPEB obligation	(190,416)
Net OPEB Obligation - beginning of year	<u>459,526</u>
Net OPEB Obligation - end of year	<u><u>\$ 269,110</u></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, 2015, 2014 and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
6/30/13	\$ 351,337	\$ 110.50%	\$ 773,320
6/30/14	360,066	187.15%	459,526
6/30/15	351,251	154.21%	269,110

e. Funded Status and Funding Progress:

As of July 1, 2012, the plan was 8.99% percent funded. The actuarial accrued liability for benefits was \$4,499,844, and the actuarial value of assets was \$404,434, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,095,410. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$2,161,937 and the ratio of the UAAL to the covered payroll was 189.43%.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

12. 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, 2012. 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 is 30 years.

13. 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.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

13. RISK MANAGEMENT (CONTINUED):

At June 30, 2015, 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 \$44,989,422). 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 \$2,000,000 per occurrence and has purchased excess insurance coverage of \$58,000,000. This program does not have a deductible.

Auto Liability - The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage of \$58,000,000. This program does not have a deductible.

Public Officials' Liability - The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage of \$58,000,000.

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.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

14. UNRESTRICTED NET POSITION:

The District has adopted a policy to designate reserves of unrestricted net position. Total reserves were designated as follows as of June 30, 2015:

Designated reserves for:

Operations	\$ 3,621,379
Rate stabilization	1,252,068
Capital funding including expansion of facilities and future repairs and maintenance	<u>12,538,044</u>
Total Designated Reserves	17,411,491
Undesignated net position	<u>5,218,612</u>
Total Unrestricted Net Position	<u>\$ 22,630,103</u>

15. COMMITMENTS AND CONTINGENCIES:

The District is party to a water production and delivery agreement dated May 12, 2012 with the La Habra Heights County Water District ("La Habra Heights") for the purpose of assisting the District to access water rights in the Central Groundwater Basin of Los Angeles County ("Central Basin"). The District has acquired pumping rights in the Central Basin but has no facilities to produce water from Central Basin. La Habra Heights has facilities to produce water from the Central Basin and is able to assist the District to produce water, pursuant to the District's water rights, and deliver the water to the District's water distribution system. Subject to certain limitations as specified in the agreement, La Habra Heights will convey to the District, groundwater from the Central Basin. La Habra Heights will bill the District on a monthly basis for water delivery costs. The District will pay La Habra Heights for transporting water, and La Habra Height's direct cost of production, energy costs associated with the delivery of the water to the delivery point, any other variable cost of production. The District will pay a wheeling charge that is \$50 per acre-foot until the District has amortized its capital costs. After the District has fully amortized its capital cost, the wheeling charge is \$75 per acre-foot. In addition, La Habra Heights will share the cost savings that the District realizes as a result of La Habra Heights pumping and delivering water to the District from the Central Basin instead of the District purchasing water from other sources. In fiscal year 2015, the District incurred \$6,895 in costs to construct the transmission facilities on La Habra Height's property which the La Habra Heights is responsible for maintaining. These amounts are recorded as contributed capital to La Habra Heights.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

16. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS:

The implementation of GASB Statement Numbers 68 and 71 requires reporting the net pension liability of the District's defined benefit pension plan in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Numbers 68 and 71 resulted in reducing net position of the proprietary fund by \$2,852,354 as of July 1, 2014.

In addition, previously reported proprietary fund net position was increased by \$805,538 to correct the beginning balances of other receivables, accounts payable, and other payables related to a joint venture project managed by the District.

In connection with the District's Other Post-Employment Benefit (OPEB) Plan (see Note 12), the District established a trust account to hold OPEB Plan assets. Due to the District's level of responsibility in administering the OPEB Plan and related trust account, it has been determined that the trust account should be reported in the District's financial statements as a fiduciary fund. Beginning net position of the OPEB Trust Fund as of July 1, 2014 was \$1,415,139.

17. SUBSEQUENT EVENTS:

Events occurring after June 30, 2015 have been evaluated for possible adjustments to the financial statements or disclosure as of December 8, 2015, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

	<u>2015</u>
Proportion of the net pension liability	0.03764%
Proportionate share of the net pension liability	\$ 2,341,881
Covered - employee payroll	\$ 2,161,937
Proportionate share of the net pension liability as percentage of covered - employee payroll	108.32%
Plan's fiduciary net position	\$ 11,721,653
Plan fiduciary net position as a percentage of the total pension liability	83.35%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

ROWLAND WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years*

	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 334,790
Contributions in relation to the actuarially determined contributions	<u>(334,790)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered - employee payroll	\$ 2,161,937
Contributions as a percentage of covered - employee payroll	15.49%

Notes to Schedule:

Valuation Date 6/30/2012

Methods:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of payroll
Average remaining period	19 years as of valuation date
Asset valuation method	15-year smoothed market

Actuarial Assumptions:

Discount rate	7.5% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflationm growth of 2.75% and an annual production growth of 0.25%
Retirement age	50
Mortality	

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

ROWLAND WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2015

**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%
07/01/12	\$ 4,499,844	\$ 404,434	\$ 4,095,410	8.99%	\$ 2,161,937	189.43%

OTHER SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

SCHEDULE OF OTHER OPERATING EXPENSES

For the year ended June 30, 2015

Engineering	\$ 16,023
Maintenance and operations	30,322
Small tools and supplies	29,327
Water tests	20,193
Certification, fees and permits	71,502
Water supply planning and development	<u>118,296</u>
 TOTAL OTHER OPERATING EXPENSES	 <u><u>\$ 285,663</u></u>

ROWLAND WATER DISTRICT

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended June 30, 2015

Salaries and wages	\$ 1,064,836
Payroll taxes	171,124
Insurance	688,607
Automobile expenses	52,243
Service charges	98,257
Office supplies and expenses	210,380
Utilities	76,783
Professional services	380,144
Membership fees and dues	43,520
Conferences and travel	52,953
Directors' fees and expenses	115,117
Public relations	109,296
Repairs and maintenance	15,265
Pension plan contributions	445,802
Other post employment benefits	351,251
Seminars and training	58,949
Conservation rebate program expenses	9,326
Taxes, permits and fees	3,547
Uncollectable accounts	6,227
Miscellaneous	<u>55,398</u>
 TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	 <u>\$ 4,009,025</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Rowland Water District
Rowland Heights, California

We have audited, in accordance with the 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, the financial statements of the proprietary fund and fiduciary fund of the Rowland Water District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 8, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

Internal Control over Financial Reporting (Continued)

Significant Deficiency

Utility Billing Service Rates

Auditors' Comment:

We noted that the water service charges for bi-monthly customers with a 5/8", 3/4", and 1" meter sizes and the fire service charge for bi-monthly customers with a 2" meter size effective January 1, 2015 were entered into the billing system incorrectly. We projected the effects of these errors in rates for the six-month period ended June 30, 2015 and determined that the affected customers were billed approximately \$11,000 less than what they should have been billed. It is important that board-approved rate changes are implemented accurately. We recommend that controls over the implementation of rate changes be modified to include multiple layers of review by employees other than the one entering the rate changes into the system to ensure the accuracy of the rates being charged.

District's Response:

Rowland Water District immediately moved to correct the error of the unbilled service charges as noted by White Nelson Diehl Evans LLP. In the future when rate and charge changes are made, they will be signed off on by a member of Rowland Water District management.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response To Finding

The District's response to the finding identified in our audit is described above. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Irvine, California
December 8, 2015